NATURAL GAS SERVICES GROUP, INC.

2020

ANNUAL REPORT

DEAR NGS SHAREHOLDERS

Stephen C. Taylor

Chairman of the Board, President & Chief Executive Officer

As we continue the journey into a new year, we are grateful for your interest in and support of Natural Gas Services Group, Inc.

When I penned last year's letter indicating it was a year of "unprecedented uncertainty", little did we know just how uncertain the world would be. The global COVID-19 pandemic resulted in unimaginable disruptions: to our economy, our industry and our business. That said, we work in an essential industry with critical workers and, as a result, we had to adapt, evolve and reorient every aspect of our company and operations. We swiftly implemented sweeping stay-at-home work policies for our office personnel and immediately imagined, developed and implemented previously unimaginable operating protocols for members of our field services and fabrication teams. Like every other business and community, we faced uncertainty from exposure related to customers, co-workers and families. Yet, through the steadfast safety and care of the entire NGS team we avoided overwhelming operating disruptions related to COVID-19.

However, no energy services company was immune to the impact on energy commodities: an unprecedented, precipitous collapse in oil prices. Our strong financial position and nimble operating structure allowed us to respond quickly. The NGS team implemented cost savings, adjusted our field and fabrication operations to align with the market and re-examined all aspects of our business. While our operations were impacted by reduced demand and customer uncertainty, we weathered the storm: rental revenue recovered as the year progressed, we further improved our liquidity, retired our modest debt and continued to make strides in penetrating the high-horsepower compression market.

Our operating footprint continued to grow and evolve as we increased our total rental fleet to 438,524 horsepower, our fourth consecutive year of growth. We added 42 new rental units, totaling 23,000 horsepower, nearly all classified as high-horsepower. We also continued to retire older, smaller-horsepower units. This strategy has resulted in a 36% increase in average rental unit horsepower since 2017, evidence of our dedication to becoming a leader in medium-to-large horsepower compression.

In arguably the most challenging year in the history of oilfield operations, NGS grew annual rental revenue by seven percent. While total revenue declined 13%, that was almost entirely the result of the evisceration of compression sales as customers slashed capital spending. Gross margin declined only four percent over the previous year and our EBITDA fell by only six percent. Our ability to respond to extraordinary market disruptions dampened the impact of declining business activity on the Company's bottom-line.

Cash flow from operations was $32.7 million in 2020, an increase from $29.4 million in prior year. We finished the year with $28.9 million of cash, an increase of nearly 150% from year-end 2019. While we continued to grow our fleet through capital expenditures, we did so prudently. We invested approximately $13 million in new rental compression throughout 2020 with nearly 90% of the spend focused on large horsepower units (which were placed into service), a focus that continues today.

Every oilfield services company strives for an exceptional safety record and NGS is proud to lead the way. In 2020, the Company had no recordable safety incidents resulting in a Total Recordable Incident Rate (TRIR) – a government standard that measures recordable injuries – of 0. We remain committed to leading our industry in safety.

In Appreciation,

Stephen Taylor

NATURAL GAS SERVICES GROUP, INC.
404 Veterans Airpark Lane, Suite 300
Midland, Texas 79705

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on Thursday, June 17, 2021

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held on Thursday, June 17, 2021

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 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705 on Thursday, June 17, 2021 at 8:30 a.m., Central Time, for the purpose of considering and voting upon proposals:

1. To elect two Directors to serve until the Annual Meeting of Shareholders to be held in 2024, or until their successors are elected and qualified;
2. To consider an advisory vote on executive compensation of our named executive officers;
3. To ratify the appointment of Moss Adams LLP as the Company's independent registered public accounting firm for 2021; and
4. 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 12, 2021 are entitled to notice of and to vote at the meeting and at any adjournment(s) of the meeting. On that day, 13,619,788 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 nominees named in this proxy statement, (ii) approval, on an advisory basis, of the compensation programs of our named executive officers, and (iii) the ratification of the appointment of Moss Adams LLP as our independent registered public accounting firm for 2021.

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

April 30, 2021

/s/ Stephen C. Taylor

Stephen C. Taylor
Chairman of the Board, President and Chief Executive Officer

NATURAL GAS SERVICES GROUP, INC.
404 Veterans Airpark Lane, Suite 300
Midland, Texas 79705

PROXY STATEMENT
FOR THE
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON THURSDAY, JUNE 17, 2021

GENERAL INFORMATION

This proxy statement is furnished in connection with the solicitation of proxies from the shareholders of the Company to be voted at our Annual Meeting of Shareholders (the "Annual Meeting") to be held at 404 Veterans Airpark Lane, Suite 300, Midland Texas, 79705 on **Thursday, June 17, 2021, at 8:30 a.m. Central Time** and any adjournment thereof. **YOUR PROXY IS SOLICITED BY THE COMPANY'S BOARD OF DIRECTORS.** If not otherwise specified, all proxies received pursuant to this solicitation will be voted "FOR" the proposals as specified in this proxy statement and, at the discretion of the proxy holder, upon such other matters as may properly come before the Annual Meeting or any adjournment thereof. This proxy statement (including the Notice of Annual Meeting of Shareholders) and Annual Report on Form 10-K for the year ended December 31, 2020 is first being made available to shareholders beginning on or before April 30, 2021. This proxy statement, including the Notice of Annual Meeting, proxy card, and Annual Report on Form 10-K for the year ended December 31, 2020, are collectively referred to herein as the "Meeting Materials."

Notice and Access Model

We are making the Meeting Materials available to shareholders on the Internet under the SEC's Notice and Access model. On or before April 30, 2021, we will mail to all our shareholders a Notice of Internet Availability of Proxy Materials (the "Notice") in lieu of mailing a full printed set of the Meeting Materials. Accordingly, our Meeting Materials are first being made available to our shareholders on the Internet at www.ngsgi.com and www.proxyvote.com on or before April 30, 2021. The Notice includes instructions for accessing the Meeting Materials and voting by mail, telephone or on the Internet at the foregoing address. You will also find instructions for requesting a full printed set of the Meeting Materials in the Notice.

We believe that the electronic method of delivery under the Notice and Access model will decrease postage and printing expenses, expedite delivery of Meeting Materials to you, and reduce our environmental impact. We encourage you to take advantage of the availability of Meeting Materials on the Internet. If you received the Notice but would like to receive a full printed set of the Meeting Materials in the mail, you may follow the instructions in the Notice for requesting such materials.

Solicitation/Cost of the Meeting

Proxies are being solicited by the Company's Board of Directors (the "Board"). The costs of the solicitation will be borne by the Company. Proxies may be solicited personally or by mail, telephone, facsimile or email by Directors, officers and employees of the Company, none of whom will receive any additional compensation for such solicitations. The Company will reimburse banks, brokers, nominees, custodians and fiduciaries for their reasonable out-of-pocket expenses incurred in sending the Meeting Materials to beneficial owners of our shares.

Principal Executive Offices

Our principal executive offices are located at 404 Veterans Airpark Lane, Suite 300, Midland, Texas, 79705.

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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 2021 Annual Meeting of Shareholders, which will take place on Thursday, June 17, 2021. 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 nominees for Directors 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 our Directors and executive officers, and certain other required information.

Q: **What can I vote on at the meeting?**

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

1. To elect two Directors to serve until the Annual Meeting of Shareholders to be held in 2024, or until their successors are elected and qualified;
2. To consider an advisory vote on executive compensation of our named executive officers;
3. To ratify the appointment of Moss Adams LLP as the Company's independent registered public accounting firm for 2021; and
4. 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 nominees (Proposal #1) and FOR the ratification of the appointment of Moss Adams LLP as our independent registered public accounting firm for 2021 (Proposal #3). 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 set forth under the caption "Executive Compensation" of this proxy statement.

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 12, 2021, 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 13,619,788 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: **How do I vote my shares?**

A: Shareholders of record may vote using one of the following four methods:

- over the Internet, which you are encouraged to do so if you have access to the Internet;
- by telephone;
- by completing, signing and returning the included proxy card, for those who requested to receive printed proxy materials in the mail; or
- by attending the Annual Meeting and voting in person.

The Notice provides instructions on how to access your proxy, which contains instructions on how to vote via the Internet or by telephone. For shareholders who request to receive a paper proxy card in the mail, instructions for voting via the Internet, by telephone or by mail are set forth on the proxy card.

If you hold shares in street name, the organization holding your account is considered the shareholder of record for purposes of voting at the Annual Meeting. The shareholder of record will provide you with instructions on how to vote your shares. Internet and telephone voting will be offered to shareholders owning shares through most brokerage firms and banks. Additionally, if you would like to vote in person at the Annual Meeting, contact the brokerage firm, bank or other nominee who holds your shares to obtain a proxy from them and bring it with you to the Annual Meeting. **You will not be able to vote at the Annual Meeting unless you have a proxy from your brokerage firm, 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 Meeting 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 Meeting 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: **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 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 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705. 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 Meeting Materials?**

A: It means you hold shares registered in more than one account. Follow the instructions in each set of Meeting 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 Moss Adams LLP as our independent public accountants for 2021 (Proposal 3) is a matter considered "routine" under applicable rules. The election of two Directors (Proposal 1), and the advisory vote to approve the named executive officers' compensation programs (Proposal 2) are matters considered "non-routine" under applicable rules. For purposes of the election of a Director and all of the proposals set forth in this proxy statement, abstentions and broker non-votes, if any, will not be counted as votes cast and will have no effect on the result of the vote, although they will be considered present for the purpose of determining the presence of a quorum.

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

Proposals	Board Recommendation	Votes Required	Effect of Abstentions	Effect of Broker Non-Votes
Election of Directors	FOR each nominee	Majority of votes cast	None	None
Advisory Vote to Approve Executive Compensation ("Say on Pay" Vote)	FOR	Majority of votes cast	None	None
Ratification of Independent Registered Public Accounting Firm	FOR	Majority of votes cast	None	No Broker Non-Votes (Routine Matter)

We also will consider any other business that properly comes before the annual meeting.

***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 each nominee. For the (i) advisory vote on compensation of our named executive officers, and the (ii) ratification of the appointment of Moss Adams LLP as our independent auditors you may vote “FOR,” “AGAINST,” or “ABSTAIN” with respect to these two proposals. Under Colorado law (under which the Company is incorporated), abstentions are counted as shares present and entitled to vote at the Annual Meeting, and therefore counted as present for the purpose of determining whether a quorum is present, but they are not counted as shares cast and will therefore have no effect on the outcome of the vote.

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 Moss Adams (Proposal 3).

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 four matters described in this proxy statement. If you grant a proxy, either of the officers named as proxy holders, Stephen C. Taylor and John W. Chisholm, 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. Please see the section entitled "Shareholder Proposals" in this proxy statement for information concerning making shareholder proposals and director nominations.

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.

Q: **How can I find out the results of the voting at the Annual Meeting?**

A: Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in a current report on Form 8-K that we expect to file with the SEC no later than four business days after the conclusion of the Annual Meeting. If final voting results are not available to us in time to file a Form 8-K on or before the fourth business day after the Annual Meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

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 to alicia.dada@ngsgi.com; or (3) mail your request to Natural Gas Services Group, Inc., 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705, 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, 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 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:

Term Expiring at the 2021 Annual Meeting	Terms Expiring at the 2022Annual Meeting	Terms Expiring at the 2023 Annual Meeting
David L. Bradshaw	John W. Chisholm	Leslie A. Beyer
Nigel J. Jenvey		Stephen C. Taylor

Shareholders will be electing two Directors at the meeting. The Board is recommending Mr. Bradshaw for re-election and Mr. Jenvey for election to the Board of Directors to serve a three year term expiring at the annual meeting of shareholders in 2024.

The persons named in our form of proxy will vote the shares represented by such proxy for the election of the nominees for Director named above unless other instructions are shown on the proxy card. If, at the time of the meeting, a 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 persons nominated as a Director, and for each person whose term of office as a Director will continue after the 2021 Annual Meeting, is set forth below.

Nominees for Directors for Term to Expire in 2021

David L. Bradshaw

David L. Bradshaw, 66, 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. From 1999 to 2005, Mr. Bradshaw also served as Chief Executive Officer and Chairman of Tipperary Oil & Gas (Australia) Pty Ltd, 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 has spanned over forty years in the oil and gas industry and as a public accountant. His executive management positions in both private and public companies bring us significant leadership, planning and management skills and background.

Nigel J. Jenvey

Nigel. J. Jenvey, 48, was appointed as a Director of Natural Gas Services Group in April 2021. Mr. Jenvey is currently the Global Head of Carbon Management at consultancy Gaffney, Cline & Associates. Prior to joining Gaffney Cline, Mr. Jenvey spent eight years at BP as the company's head of Carbon, Capture, Use and Storage (CCUS) and carbon solutions manager. He also led similar efforts at Maersk Oil as Technical Director of carbon & climate, and served in various managerial and project leadership roles at Royal Dutch Shell, including Shell's global Enhanced Oil Recovery (EOR) Center of Expertise and European operating business. He began his career as a petroleum engineer at Texaco in 1995 supervising offshore oil and gas production operations in the North Sea. Mr. Jenvey is an industry leader in Carbon Management and expert in CCUS having been involved in leading projects across the world since 2004. These have included providing peer advice to the National Petroleum Council, the Society of Petroleum Engineers and various major energy companies in the US and Canada. Mr. Jenvey is the Editor of the annual Decarbonization feature in the SPE Journal of Petroleum Technology and a peer reviewer to the International Energy Agency. Mr. Jenvey has also provided testimony to Congress on CO2 Capture technologies. Mr. Jenvey holds a Bachelor degree (Hons.) in Mining Engineering from the University of Leeds and both a Diploma and a Master of Science degree in Petroleum Engineering from Imperial College in London.

Mr. Jenvey brings significant carbon management, sustainability and ESG experience to our Board. His experience of working with companies, investors, governments, academia, and non-governmental organizations provides us a wealth of knowledge and insight regarding the challenges and solutions that exist for the oil and gas industry, and adds to our Board's capabilities to successfully guide the Company through these matters that are impacting our business and industry

Required Vote for This Proposal

The election of the Director nominees requires the affirmative vote of a majority of the votes cast at the Annual Meeting with respect to each nominee. The number of shares voted "for" the Director nominee must exceed the number of votes cast "against" that nominee for the nominee to be elected as a Director to serve until his or her term expires or until his or her successor has been duly elected and qualified.

Pursuant to the resignation policy adopted by our Board and further described in our Corporate Governance Guidelines, any nominee for Director who is not elected shall promptly tender his or her resignation to our Board following certification of the stockholder vote. The Environmental, Social and Governance and Personnel Development ("ESG") Committee will consider the resignation offer and recommend to our Board the action to be taken with respect to the offered resignation. In determining its recommendation, the ESG Committee shall consider all factors it deems relevant. Our Board will act on the ESG Committee's recommendation within 90 days following certification of the stockholder vote and will publicly disclose its decision with respect to the Director's resignation offer (and the reasons for rejecting the resignation offer if applicable).

Any Director who tenders his or her resignation pursuant to the resignation policy shall not participate in the ESG Committee's recommendation or Board action regarding whether to accept the resignation offer. If each member of the ESG Committee is required to tender his or her resignation pursuant to the resignation policy in the same election then the independent Directors of our Board of Directors who are not required to tender a resignation pursuant to the resignation policy shall consider the resignation offers and make a recommendation to our Board.

To the extent that one or more Directors' resignations are accepted, our Board, in its discretion, may determine either to fill such vacancy or vacancies or to reduce the size of the Board within the authorized range.

Continuing Director Whose Term Expires in 2022

John W. Chisholm

John W. Chisholm, 66, was appointed as a Director of Natural Gas Services Group in December 2006. Mr. Chisholm was appointed as Lead Director in June 2020. 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. ("Flotek"), and became its interim President in August 2009. Mr. Chisholm became President of Flotek in August 2010, was appointed as its Chief Executive Officer in March 2012, and served in those roles until January 2020. Flotek is a public company which files reports under the Securities Exchange Act of 1934. Mr. Chisholm is presently CEO of The John Chisholm Group. Mr. Chisholm holds a Business Administration degree from Fort Lewis College in Colorado.

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 Term Expires in 2023

Leslie A. Beyer

Leslie A. Beyer, 45, joined our Board in June 2020. Ms. Beyer is the Chief Executive Officer of the Energy Workforce and Technology Council ("EWTC") formed through the merger of the Petroleum Equipment & Services Association ("PESA") and the Association of Energy Service Companies, a position she has held since the merger in February, 2021. EWTC represent more than 600 member companies in energy services, supply, manufacturing and drilling with a focus on enabling its members to safely, profitably and sustainably produce the energy needed to meet rising demand around the world. Prior to leading EWTC, Ms. Beyer was the Chief Executive Officer of PESA. Prior to joining PESA, Ms. Beyer served as Director, Member and Board Relations for the National Association of Manufacturers from 2012 to 2014. Previously, Ms. Beyer served in leadership roles at Burson-Marsteller Public Affairs and at a boutique public relations firm for more than six years. Prior to her time in public affairs, Ms. Beyer served in media relations capacities in The White House, Executive Office of the President and on the Bush 2000 Presidential Campaign. She began her career in legislative policy roles in the U.S. Senate, U.S. Department of State and U.S. Department of Housing. Ms. Beyer holds a Bachelor of Arts in Latin American Studies and Spanish from the University of Texas at Austin.

As a strong advocate for the oilfield services and equipment sector, Ms. Beyer provides the Board with a wealth of knowledge and insight about the strategic and tactical matters impacting our business and industry. In addition, Ms. Beyer's public affairs, policy and leadership experience significantly adds to our Board's capabilities.

Stephen C. Taylor

Stephen C. Taylor, 67, 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 uniquely qualifies 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.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Natural Gas Services Group's Board of Directors held six meetings in 2020. 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 for which he served (during the periods that he served). The Board acts from time to time by unanimous written consent in lieu of holding a meeting.

Our non-management Directors hold regularly scheduled executive sessions in which those Directors meet without management participation. Generally, our Lead Director, John W. Chisholm, presides over these sessions.

We typically schedule a Board meeting in conjunction with our annual meeting of shareholders. 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 2020 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;
- discussing with management policies with respect to risk assessment and risk management;
- 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), Leslie A. Beyer, and Nigel J. Jenvey (since April 2021). William F. Hughes was a member of the Audit Committee during 2020 and until his retirement from the Board in April 2021. 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 has determined that David L. Bradshaw is qualified as an "audit committee financial expert" as that term is defined in the rules of the United States 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, Moss Adams the matters required to be discussed by Public Accounting Oversight Board Auditing Standard No. 1301 (AS 1301) (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., 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705 or by visiting the "Governance" tab on the investor relations page of our website at www.ngsgi.com.

Compensation Committee

The primary functions of our Compensation Committee include:

- assisting the Board in overseeing the management of our human resources;
- evaluating our Chief Executive Officer's performance and compensation;
- formulating and administering our overall compensation principles and plans; and
- evaluating management.

The Compensation Committee's policy is to offer the executive officers competitive compensation packages that will permit us to attract and retain individuals with superior abilities and to motivate and reward such individuals in an appropriate fashion in the long-term interests of Natural Gas Services Group and its shareholders. Currently, executive compensation is comprised of salary and cash bonuses and awards of long-term incentive opportunities in the form of restricted stock or restricted stock unit awards under the 2019 Equity Incentive Plan, as well as other long-term incentives payable in cash.

The members of the Compensation Committee are Leslie A. Beyer. (Chairperson since April 2021), John W. Chisholm, and David L. Bradshaw (since April 2021). William F. Hughes was the Chairman of the Compensation Committee until his retirement in April 2021. 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 2020, 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 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., 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705 or by visiting the "Governance" tab on the investor relations page of our website at www.ngsgi.com .

Environmental, Social and Governance and Personnel Development Committee

The primary functions of our Environmental, Social and Governance ("ESG") and Personnel Development Committee include:

- 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;
- overseeing the evaluation of the Board and its committees; and
- developing, with input from executive leadership, the principles guiding our Environmental, Social and Governance efforts and monitoring our progress in meeting such principles

The members of the ESG and Governance and Personnel Development Committee are Nigel J. Jenvey (Chairman since April 2021), David L. Bradshaw, and John W. Chisholm. Our Board has determined that each of the ESG 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 ESG and Personnel Development Committee.

Any shareholder may obtain free of charge a printed copy of our Environmental, Social and Governance and Personnel Development Committee Charter by sending a written request to Investor Relations, Natural Gas Services Group, Inc., 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705 or by visiting the "Governance" tab on the investor relations page of our website at www.ngsgi.com.

Nominating Committee

The primary 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 C. Chisholm (Chairman since April 2021), Leslie A. Beyer, and Nigel J. Jenvey (since April 2021). 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., 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705 or by visiting the "Governance" tab on the investor relations page of our website at *www.ngsgi.com*. 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.

The Board is responsible for identifying individuals qualified to become Directors, and nominees are selected by the Board. The Board takes into account many factors, including being highly qualified in terms of business experience, finance and other disciplines relevant to the success of a publicly traded company in today's business environment; understanding of the Company's business on a technical level and the industry in which it competes; and educational and professional background. The Board evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best support the success of the business and, based on its diversity of experience and backgrounds, represent stockholder interests through the exercise of sound judgment.

The Nominating Committee will consider a Director candidate recommended by a shareholder. A candidate must be highly qualified based on the factors noted above and be both willing and expressly interested in serving on the Board. A shareholder wishing to recommend a candidate for the Committee's consideration must follow Securities and Exchange Commission Rule 14a-8 or our advance notice provisions contained in our Bylaws. Please see "Shareholder Proposals" on page 57 of this proxy statement for further information.

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 Environmental Social and Governance and Personnel Development Charter which are consistent with the NYSE listing standards: Leslie A. Beyer, Nigel J. Jenvey, David L. Bradshaw, and John Chisholm. William F. Hughes, who retired from the Board in April 2021, was also determined to be "independent" under these standards. The Board has made an affirmative determination that each of 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. A copy of Exhibit A to our Governance Charter is available at our website, www.ngsgi.com, under the heading "Investor Relations-Governance."

Board of Directors Diversity

The Company values diversity and the benefits that a diverse workforce can bring to the Company and to the Board of Directors. Diversity can promote the inclusion of different perspectives and ideas which can lead to more robust discussion regarding strategic and governance policy alternatives and, ultimately, result in better corporate governance and decision making.

The Company seeks to maintain a Board comprised of talented and dedicated Directors with a diverse mix of expertise, experience, skills and backgrounds. The skills and backgrounds collectively represented on the Board should reflect the diverse nature of the business environment in which the Company operates. As new members of the Board are considered, diversity considerations should include - but not be limited to - business expertise, geography, age, gender and ethnicity.

The Company is committed to a merit-based system for Board composition within a diverse and inclusive culture which solicits multiple perspectives and views and is free of conscious or unconscious bias. When assessing Board composition or identifying suitable candidates for appointment to the Board, the Company will consider candidates on merit with due consideration to the benefits of diversity and the needs of the Board. The Board and its Nominating Committee are especially cognizant of the benefits of gender and ethnic diversity and will continue to focus on important diversity metrics in future searches.

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 Chairman of the Board as well as 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.
- The establishment of the Lead Director position, described below, which assumes the role of ensuring fair, open and independent discussions and decisions amongst the Board. John W. Chisholm currently serves as Lead Director.
- Each of the Board's standing committees, including the Audit, Compensation, ESG 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, non-employee 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. John W. Chisholm was appointed Lead Director in June 2020.

Role in Risk Oversight

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

CODE OF ETHICS

Our Board of Directors has adopted a Code of Business Conduct and Ethics ("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 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705 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 Chief 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.

SHAREHOLDER ENGAGEMENT

The Company's Board of Directors and executive management believes that building long-term relationships with all Company stakeholders is vital to meeting our corporate governance goals, and to stand in support of our commercial success. Our shareholders, who invest in our company and elect the Board, 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 financial and operational trends, the structure of our business, and certain governance issues, including executive compensation.

During 2020, due to the COVID-19 pandemic, direct person-to-person meetings with shareholders were limited. However, through virtual road shows, conference calls, and video meetings, we were able to meet with nearly all of our largest institutional shareholders, including multiple touch points with many. In addition, we held virtual road shows, conference calls and video meetings with other current and prospective shareholders. These meetings not only allowed the Company to communicate about its current business operations with shareholders, the Company used these meetings to actively solicit shareholders’ views on key corporate governance issues including executive compensation as well as the Company’s Environmental, Social and Governance (“ESG”) initiatives We have incorporated this feedback into both our compensation and ESG programs.

Overall, the Company engages our shareholders on a regular basis. In addition to periodic reports filed with the U.S. Securities and Exchange Commission, the Company holds quarterly conference calls to discuss interim financial and operational results with its stakeholders, participates in several industry conferences which are available to Company stakeholders in person (temporarily suspended due to the COVID-19 pandemic) or via various public online platforms and meets with shareholders in person throughout the year (also temporarily suspended due to the COVID-19 pandemic and public health considerations). The Company believes that its consistent and continuous shareholder engagement strategy has created an environment in which shareholders are comfortable in providing candid feedback and critique of the Company’s operations, governance and executive compensation policies.

Additionally, independent Directors have taken a proactive approach in participating in shareholder engagement efforts resulting from feedback received from shareholders and proxy advisory services. Independent Directors continue to regularly review the Company’s shareholder outreach and communication programs and participate as appropriate. The Company anticipates continuing to increase the role of independent Directors in appropriate stakeholder outreach programs.

During 2020, the Company estimates it met with approximately 60 unique shareholders and prospective shareholders in various meetings across North America. These engagements provided detailed information about the Company’s financial and operational performance as well as key information of certain corporate governance matters, including executive compensation. Such information is publicly disseminated in the form of periodic filings with the U.S. Securities and Exchange Commission, press releases and information on the Company’s website, including the investor relations section.

CORPORATE RESPONSIBILITY

Natural Gas Services Group believes that effective corporate governance is a combination of oversight, responsiveness and positioning of our business operations on a day-to-day basis with a focus on mitigation of our environmental impact, accountability in corporate governance and progress in our social policies.

Our Board of Directors believes that integrating these values into our everyday business practices creates a holistic approach to good governance and best aligns the interests of our leadership team, our employees and the Company's other stakeholders. Moreover, as a smaller company, our holistic approach and consistent focus on these important tenets allows us to focus on continuous improvement without an untenable financial impact, providing a mechanism to optimize the interests of all stakeholders.

Further demonstrating our commitment to ESG matters, the Board of Directors has chartered the Environmental, Social and Governance and Personnel Development Committee to proactively engage with management and other NGS stakeholders on key ESG issues. The Committee, to be chaired by recently appointed director Nigel J. Jenvey – a leader in environmental issues in the energy industry – will focus on continuous improvement of the Company's ESG programs and policies.

Our Environmental Initiatives

Natural Gas Services Group continuously works to eliminate or mitigate our impact on the environment through our innovative product designs, focus on reducing our environmental footprint across all operations, and remediation of our impact through control mechanisms and technologies in all aspects of our business. In addition, our innovation in product design and service delivery systems is intended to support the sustainability goals and initiatives of our customers.

The design and construction of our new corporate headquarters in Midland is an example of our commitment to environmental stewardship. Our state-of-the art headquarters include the use of "daylight harvesting" technologies; "smart lighting" that use artificial intelligence to determine office occupancy times and adjust light accordingly; and advanced mechanical systems including variable refrigerant flow systems and energy recovery systems; and high-performance glass and advanced solar shades that reduce glare and heat gain. These are significant capital investments for a company our size that will have a long-term impact on our environmental footprint.

In addition, we strive to continuously improve the environmental footprint of our core compression equipment and services with new technology and innovations that focus on best-in-class emissions and impact on the environment. Recent innovations include:

- We have and continue to pursue the most energy efficient and emissions-controlled engine systems available for our compression equipment. All of our engines have the latest catalytic technology and air-fuel ratio (AFR) controllers to provide the cleanest fuel burn available, well exceeding EPA standards. These advanced systems continuously monitor multiple engine and compressor parameters to ensure optimum engine emissions efficiencies and adjust to varying fuel quality available from wellhead production.
- To ensure consistent efficient engine performance, we have invested in state-of-the-art emissions detection equipment to ensure our engines exceed all state and federal air emissions regulations. Additionally, we perform preventative maintenance on all engine systems twice per quarter and comprehensive emissions tests to ensure optimum performance. The company is acutely focused on reducing our environment impact on noise, emissions and carbon footprint.
- Our compressor units are equipped with advanced safety and containment features that provide for safe containment and disposal of used oils, antifreeze and other fluids. Skid containment rails and fluid dumps are manifolded together to mitigate the risk of fluid spills and environmental leaks as a result of operating error or system failures. Active monitoring systems provide further assurance of safe and optimal operations.
- In our mechanical compression packages, we have meaningfully reduced our oil consumption and associated disposal issues with a unique engine and compressor lubricating system.
- In our flaring business, we have designed and exclusively sell "Quad O" flare systems which meet the most stringent federal standards, allowing our customers to exceed all emission standards when natural gas flaring is necessary.

- In our Michigan service location, we have installed two oil burner systems which allows us to efficiently recycle waste oil into energy and heat capacity for our service facility.
- We also work with our customers and suppliers toward policies and processes that reduce the environmental impact of our work. We continuously engage with our top customers to share best practices, new technologies and operating innovations that can be implemented to improve our collective environmental footprint.
- We completed construction of our new corporate headquarters in Midland, Texas where we incorporated the latest energy-efficient technologies designed for commercial buildings. Innovations include the use of "daylight harvesting" technologies; "smart lighting" that use artificial intelligence to determine office occupancy times and adjust light accordingly; and advanced mechanical systems including variable refrigerant flow systems and energy recovery systems; and high-performance glass and advanced solar shades that reduce glare and heat gain.
- The Board of Directors regularly considers new technologies to further reduce the Company's environmental footprint and has directed Company leadership to evaluate further opportunities for reducing the impact on the environment.

Our Social Initiatives

In response to the COVID-19 pandemic, Natural Gas Services Group implemented a sweeping work-from-home policy for the majority of our office employees and we committed to minimize employment disruption to the best of our ability. For our service employees who provide critical services on customer locations, we invested in important personal protective equipment and developed additional safety protocols to ensure appropriate distancing and other COVID-19 safety measures. In 2020, we also invested in significant employee training and development. While the COVID-19 pandemic created unique challenges related to employment and hiring, the Company remains committed to a diverse and inclusive workforce with both executive management and the Board of Directors focused on ensuring equality of opportunity in all our human resources practices.

The Company also believes that workplace and workforce safety is a hallmark of our social responsibility initiatives. As a result, we also incorporate our Health, Safety, Environment and Quality ("HSEQ") initiatives into these programs and policies. In addition to the protection of the environment, we are steadfastly committed to the safety of our employees and other stakeholders as well as the physical and mental well being of all members of the NGS family. Our commitment centers on mitigating risks to employees and those with whom they interact and maintaining safe work environments and procedures. Our focus on regular, required safety and procedure training helps ensure a consistent and safe work environment. Our strong safety program has allowed NGS to consistently post one of the lowest Total Recordable Incident Rates ("TRIR") in the industry.

Our Governance Initiatives

The recent creation of the Environmental, Social and Governance and Personnel Development Committee of the Board of Directors is an important step and indication of the Company's commitment to continuous improvement in corporate governance and responsibility.

This committee was chartered to be proactive in assisting the Board and Company leadership in its oversight of ESG-related policies and issues affecting Natural Gas Services Group, its stockholders, employees, customers and the communities in which the Company operates. We believe that the integration of our environmental and social initiatives with our governance responsibilities is the best way to optimize our commitment to being an industry leader in corporate responsibility.

In addition to the Board ESG Committee, our audit committee is engaged in independently reviewing the Company's financial governance practices for accuracy and transparency as well as ensuring they provide the Company stakeholders with a consistent method by which to evaluate performance. In connection with this responsibility, in 2020 the Audit Committee received proposals from independent accounting firms and engaged a new independent auditor to perform our annual audit and quarterly reviews. The committee is satisfied this change stands in support of best governance practices.

While qualifying as a smaller reporting company with fewer disclosure requirements, the Board of Directors and leadership of the Company nonetheless have continued to provide an array of disclosures and reports as it remains committed to a high level of transparency, a practice it believes is in the best interests of the Company's shareholders and other stakeholders.

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 annually at its first meeting following the annual meeting of shareholders.

James R. Hazlett, 66, 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 40 years of industry experience.

G. Larry Lawrence, 70, has served as our interim Vice President, Chief Financial Officer, and Corporate Secretary for 2021 and Mr. G.L. Lawrence also served as Vice President, Chief Financial Officer and Corporate Secretary prior to his retirement from the Company on November 15, 2019. Mr. G.L. Lawrence was originally appointed to those positions on July 1, 2011. Previously, Mr. G.L. Lawrence was our Controller since September 2010. From June 2006 to August 2010, Mr. G.L. 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. G.L. 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. G.L. 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. G.L. Lawrence was employed by Atlantic Richfield Company, where he most recently (from 1993 through 2000) served as Controller of ARCO Permian. From May 2006 to December 2019, Mr. G.L. Lawrence served as a director of Legacy Reserves Inc. and its predecessor, Legacy Reserves LP. Mr. G.L. Lawrence currently serves as a Director of ProPetro Holding Corporation. Mr. G.L. Lawrence has a Bachelor of Arts in Accounting, with honors, from Dillard University.

James R. Lawrence, 51, is our former Vice President, Chief Financial Officer, and Corporate Secretary after resigning from the Company in December 2020. Mr. J.R. Lawrence was appointed to those position on November 16, 2019. Mr. J.R. Lawrence also served as our Corporate Secretary. Mr. J.R. Lawrence, previously served as the Chief Financial Officer of Bold Energy III LLC, a privately held oil and natural gas company that was an affiliate of EnCap Investments. Prior to joining Bold, Mr. J.R. Lawrence served as Vice President-Finance and Treasurer for Legacy Reserves LP, a publicly traded oil and natural gas company, from 2010 to 2014. Prior to joining Legacy, Mr. J.R. Lawrence worked for nine years in investment banking, including the last six years in the Energy Investment Banking Group at Raymond James & Associates, where he served as a Vice President. Mr. J.R. Lawrence holds an MBA with distinction from the Stern School of Business at New York University and a BBA in Accounting and Finance from the University of Texas at Austin. Mr. J.R. Lawrence is also licensed as a Certified Public Accountant in the state of Texas.

EXECUTIVE COMPENSATION

In June 2018, the Securities and Exchange Commission ("SEC") approved amendments to the definition of a "smaller reporting company" (SRC) which became effective in September 2018. These amendments greatly expanded the number of companies that qualify as SRCs and thereby are eligible to use scaled down disclosures in their SEC filings and reports. For 2020, Natural Gas Services Group, Inc. meets the definition of an SRC. One of the significant SRC benefits is a reduction in the amount of executive compensation disclosure, including deletion of the requirement to provide the compensation, discussion and analysis section our annual proxy statement. Nevertheless, we are cognizant that our compensation disclosure provides important information to our shareholders and have elected to continue with our customary executive compensation disclosures. We believe the following disclosure provides transparency regarding our compensation policies and practices so that our shareholders can make informed decisions and knowledgeably participate in the governance process. As in the past, we intend to continue to engage our shareholders regarding our compensation policies.

This section provides information regarding our executive compensation program in 2020 for the following executive officers of the Company (collectively, the "named executive officers"):

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

James R. Lawrence, our former Vice President and Chief Financial Officer;

James R. Hazlett, our Vice President-Technical Services; and

G. Larry Lawrence, our interim Chief Financial Officer (as well as our former Vice President and Chief Financial Officer).

Introduction and Overview

The Compensation Committee of the Board of Directors is responsible for determining the types and amounts of compensation we pay to our executives. The Compensation Committee operates under a written charter that you can view on our website at www.ngsgi.com. The Board has determined that each member of the Compensation Committee meets the independence and financial literacy requirements of the New York Stock Exchange NYSE. The Board determines, in its business judgment, whether a particular Director satisfies the requirements for membership on the Compensation Committee set forth in the Compensation Committee's charter. None of the members of the Compensation Committee are current or former employees of Natural Gas Services Group or any of its subsidiaries.

The Compensation 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 interim, reviews of our compensation programs and philosophy regarding executive compensation.

The Compensation 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. The Compensation Committee, from time-to-time, also engages compensation consultants and other experts to provide data and guidance on appropriate compensation practices, industry standards, peer selection and other items relevant to the responsibilities and deliberations of the Compensation Committee.

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 industry peers; and
- serves as an adequate retention tool in a competitive market with a finite number of experienced and qualified executives.

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 and uphold and model our company ethics, values and other standards for the Natural Gas Services Group community, including those that stand in support of our ESG principles and initiatives;
- 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 and other values and standards;
- encourage the application of a decision making process that takes into account both short-term and long-term risks and the oftentimes volatile nature of our industry; and
- align the financial interests of our executives with those of our shareholders through the grant of equity-based awards and consider the impact of equity-based awards on shareholders and, where appropriate, consider alternatives to equity-based awards to avoid unnecessary shareholder dilution.

Our Compensation Committee supports these objectives by emphasizing compensation arrangements that we believe are reasonable, will attract and retain qualified executives, and will 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.

Note Concerning Unique 2020 Considerations: The global COVID-19 pandemic had unexpected impacts on the economy, our industry and our business. While we were able to provide a full array of products and services to our customers, the impact of the pandemic significantly altered the way in which we conducted business and severely disrupted commercial relationships with both customers and vendors. The Compensation Committee recognized the fact such changes had a material impact on the workload on and effort required of our executive leadership team to manage our operations. As such, the Compensation Committee took these extraordinary circumstances, the impact of such on our business and financial performance and the adjustments required of our executives as a result into account when assessing performance and appropriate compensation for 2020.

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

WHAT WE DO		WHAT WE DON'T DO	
✓	**Fully independent compensation committee** - permits the establishment of competitive compensation practices and the measurement of actual performance in a conflict-of-interest free environment	✗	**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
✓	**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	✗	**Limited perquisites** - with the exception of certain expense reimbursements as detailed in the Summary Compensation Table that follows this compensation report, we do not provide any perquisites
✓	**Independent compensation consultant** - the Committee annually engages an independent compensation consultant to assist with its compensation reviews	✗	**No stock option exchanges or repricing** - we do not allow for stock option exchanges or the repricing of outstanding stock options without shareholder approval
✓	**Annual review** - the Committee conducts an 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	✗	**Pledging and hedging shares** - we do not permit pledging our shares as collateral for a loan; and we also strongly discourage our executives and non-employee Directors from entering into hedging or similar monetization transactions with respect to our common stock, as any deviation from our hedging policy must be approved in advance by our CEO and Board
✓	**Risk mitigation** - we have certain controls in place (signature authority, compensation structure, etc.) and an analysis is conducted on a quarterly basis	✗	**No related party transactions** - we do not have any related party transactions
✓	**Double-trigger employment** - our change-in-control payments and benefits with our Chief Executive Officer are based on a "double-trigger" provision		
✓	**Stock ownership guidelines** - stringent ownership policies for Directors, CEO and other officers		
✓	**Clawback policy** - applicable to our NEO's ("named executive officers") and other executive officers		
✓	**Three Year Vesting on Equity Awards -** equity awards to our NEOs are subject to a three-year vesting requirement		
✓	**Performance Compensations -** our cash bonuses are primarily tied to annual financial performance metrics and a portion of our CEO's long-term equity award is tied to our total shareholder return compared to our peer group		

We have chosen to implement a relatively streamlined compensation framework for our executives. We feel that our compensation philosophies and practices are appropriate for a public company of our size. This streamlined framework allows the Company and Compensation Committee to maintain a high degree of transparency, as well as relative certainty for our executives and our shareholders and prospective investors, while minimizing the impact of complex benefit programs that are both costly and potential confusing. Our compensation programs are focused on a simple goal: a fair, reasonable and straightforward compensation program that rewards our leadership team for achievements beneficial to the Company and its shareholders.

Advisory Vote on Compensation

Although the Advisory Vote on Executive Compensation is not binding on the Company, the Board of Directors assigns significant weight to the outcome of the vote and responds accordingly. In the past five years, the Board and executive management considered the results of the vote and recommendations of the proxy advisory firms as it engaged in meaningful review of its corporate governance and executive compensation matters with advisors and other stakeholders. The vast majority of input on our compensation programs and executive pay from these shareholders has been positive.

The Compensation Committee and Board of Directors believe that our executive compensation program and corporate governance policies are optimal for the Company, continue to align company leadership with the best interests of shareholders, and have facilitated and supported executive compensation that has delivered industry-leading results. At the same time, the Compensation Committee also recognizes the ever-evolving compensation and governance landscape.

Below is a summary of the actions we took in response to many of these issues during the last five years:

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.
Long-term incentives for CEO not directly performance driven and one year vesting of Restricted Stock Grants	A portion of the long-term incentives for our CEO is now objectively calculated based on total shareholder return compared to our peer group, and all long-term incentive awards to our executive officers vest in one-third increments over three years. Our Compensation Committee continually reviews reports and data relating to the manner in which share awards are determined and vest in keeping with the evolving trends for this type of compensation.
Equity Award for CEO based on one-year TSR	Starting in 2017, the TSR (total shareholder return) performance-driven portion of our CEO's equity award was based on our three-year TSR results compared to the companies in our peer group.
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 47). 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 over the last three and five year periods. Please see the tabular disclosure on page 26 and the 2020 performance achievements below.
Lack of Lead Independent Director	We have amended our Corporate Governance Guidelines to include a lead independent Director. John W. Chisholm was appointed Lead Director in June 2020.

Operational Highlights of 2020

- Through the COVID-19 pandemic, we implemented sweeping stay-at-home work policies for our office personnel and provided safe operating standards for our field personnel. We maintained high operational standards while preserving the health and welfare of our team.
- We continued our penetration into the high horsepower market through the addition of 42 new rental fleet units that totaled 23,000 HP with 89% of this being classified as larger horsepower.
- Increased our total rental fleet horsepower to 438,524 horsepower; the fourth consecutive year of increases.
- Increased our average rental fleet horsepower to 197 horsepower per unit. This is an increase of 36% per unit since 2017.
- NGS recorded a TRIR (Total Recordable Incident Rate) of 0.0 in 2020. This is an OSHA approved calculation that conveys the number of recordable injuries for every 200,000 man-hours worked in the year. This is the third consecutive year that NGS has had decreasing TRIR statistics which allowed us to remain an industry leader in overall safety.

Financial Highlights of 2020

- In one of the most challenging years for oilfield service operations in decades, we delivered 7% higher rental revenue than the prior year. This was in spite of the impact of COVID-19 and the precipitous decline in crude oil prices.
- Our cash flow from operations increased from $29.4 million in 2019 to $32.7 million in 2020. This increase in cash was accomplished in the midst of the pandemic and an oil-price depression.
- We provided conversion of revenue to operating cash flow of 48%; for every dollar of revenue collected, almost half was available as cash to the Company.
- NGS ended 2020 with $28.9 million in cash on the balance sheet and de minimis debt. This is an increase in cash from $11.6 million compared to the end of 2020.

Elements of Our Compensation Program

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 awards along with other long-term incentives payable in either cash or stock, all of which potentially vest over three years	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 (other than a Nonqualified Deferred Compensation Plan to which named executive officers and other eligible employees can contribute but to which the Company has not contributed).

Assistance Provided to the Committee

The Compensation 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 Compensation Committee) and presents recommendations to the Compensation 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 and other long-term incentives are determined solely by the Compensation Committee). The Compensation Committee may exercise its discretion in modifying any recommendations made by our Chief Executive Officer.

The Compensation Committee also seeks the input and insight of Mr. Taylor concerning specific factors that Mr. Taylor believes to be appropriate for the Compensation Committee's consideration and which the Compensation Committee may not be aware of, such as extraordinary efforts or accomplishments of our executive officers. Mr. Taylor, from time-to-time, also advises the Compensation Committee on other topics related to compensation and retention of our executives as requested.

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

Since 2012, our Compensation Committee has engaged an independent compensation consultant, Longnecker & Associates (the "Compensation Consultant"), to obtain objective, expert advice and assist with compensation matters concerning our Chief Executive Officer and Directors. Our Compensation Consultant advised the Compensation Committee on a variety of compensation related issues in 2020 with respect to our Chief Executive Officer, including:

- competitive pay analysis on executive compensation;
- pay levels of the Chief Executive Officer;
- our executive compensation program design, including short-term incentive plan design, long-term incentive plan design, and pay mix; and
- analysis and recommendations concerning peer group companies.

In the course of conducting its activities, our Compensation Consultant communicated with the Compensation Committee and presented its findings and recommendations for discussion. During 2020, our Compensation Consultants also met with our Chief Executive Officer to review its compensation report.

Since its engagement, our Compensation Consultant did not provide any services to the Company, or received 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 our Compensation Consultant raised any conflicts of interest pursuant to the SEC rules, and has concluded that no such conflicts of interest existed since its engagement and through 2020.

Competitive Pay Analysis

To evaluate the competitiveness of our Chief Executive Officer's base salary, determine total cash compensation (e.g., base salary plus target short-term cash incentive award), long-term incentive awards, and total direct compensation (e.g. base salary, target short-term cash incentive award, and long-term incentive awards), our Compensation Consultant provided the Compensation Committee with competitive pay information derived from a custom peer group (the "Peer Group") and referred to a variety of published compensation surveys utilizing companies that operate within the natural gas compression and energy services industries. In connection with compiling the data, our Compensation Consultant reports blended data from the Peer Group and the industry-specific published compensation surveys in order to provide the Compensation Committee with relevant comparable data.

The Compensation Committee, with the assistance of the Compensation Consultant, reviewed the companies comprising the Peer Group in order to maintain its appropriateness for the competitive pay analysis. These companies were selected as peers in the oilfield services industry of similar size based on market capitalization and other competitive variables. The Compensation Committee believes market capitalization should be the primary metric used when selecting industry peers for executive compensation purposes. The Compensation Committee believes the Peer Group reflects our current competitors for employee talent and provides an appropriate comparison of peer companies for the purposes of evaluating our pay practices and the Chief Executive Officer's pay levels.

The Compensation Committee used the competitive pay information and surveys as a “market check” to ensure, in its 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.

The companies comprising the Custom Peer Group in our Compensation Consultant's compensation report used in connection with 2020 included:

NGS Custom Peer Group

Company Name	**Company Description**
CSI Compressco, LP	CSI Compressco LP provides compression services and equipment for natural gas and oil production, gathering, transportation, processing, and storage.
Dawson Geophysical Company	Dawson Geophysical Company provides onshore seismic data acquisition and processing services in the United States.
Geospace Technologies Corporation	Geospace Technologies Corporation designs and manufactures instruments and equipment used in the acquisition and processing of seismic data and markets its seismic instruments primarily to the oil and gas industry worldwide.
Independence Contract Drilling, Inc	Independence Contract Drilling, Inc. provides land-based contract drilling services for oil and natural gas producers in the United States.
ION Geophysical Company	ION Geophysical Corporation provides geophysical technology, services, and solutions for the global oil and gas industry.
Key Energy Services, Inc.	Key Energy Services, Inc. operates as an onshore rig-based well servicing contractor in the United States and offers clients a comprehensive array of onshore energy production services and solutions.
Mammoth Energy Services, Inc.	Mammoth Energy Services, Inc. offers natural sand proppant, contract land and directional drilling, pressure pumping, flowback, equipment rental, and remote accommodation services for the onshore exploration and production industry.
NCS Multistage Holdings, Inc.	NCS Multistage Holdings, Inc. provides engineered products and support services that facilitate the optimization of oil and natural gas well completions and field development strategies for the onshore oil and gas exploration and production industry.
Nuverra Environmental Solutions, Inc.	Nuverra Environmental Solutions, Inc. provides environmental solutions and oilfield support services including removal, treatment, recycling, transportation, and disposal of restricted solids, fluids, and hydrocarbons for exploration and production companies.
Ranger Energy Services, Inc.	Ranger Energy Services, Inc. provides well site services and associated equipment, including well rigs, water transfer, plug and abandonment, wireline, fluid management and handling, snubbing, transportation, and equipment renting services.
RigNet, Inc.	RigNet Inc. is a data network infrastructure provider serving the remote communications needs of the oil and gas industry through a controlled and managed Internet Protocol/Multiprotocol Label Switching global network, delivers voice, data, video, and other services.
Smart Sand, Inc	Smart Sand, Inc. provides industrial sand. The Company offers proppants, sand products and renders logistics services to oil and gas companies in North America.
Solaris Oilfield Infrastructure, Inc.	Solaris Oilfield Infrastructure, Inc. provides mobile sand silo and rail-to-truck transload systems to enhance drilling, completions, and safety in shale plays in the United States.

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	(22.7)%	(63.8)%	(57.5)%
Median NGS Proxy Custom Peer Group	(34.9)%	(76.7)%	(67.8)%

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 the Company, our goal being to strengthen the link between what we pay our executives and the performance of the Company. Factors the Compensation 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.
- The upholding and implementation of key Environmental, Social and Governance principles established by the Board of Directors and its committees.

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
- 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 (or benefit from) income taxes, (4) impairment of goodwill, (5) an increase in inventory allowance, and (6) loss on retirement of rental equipment.

We believe that our core executive compensation mix of base salary, cash bonuses, equity awards and other long-term incentives presently provides enough diversity for us to link executive compensation to our short-term and long-term objectives.

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 Compensation 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 Compensation Committee on an annual basis).

In April 2020, the Compensation Committee reviewed the 2019 performance of our Chief Executive Officer, Stephen C. Taylor, along with the competitive pay information provided in the Compensation Consultant's report, in setting Mr. Taylor's base salary for 2020. Based on that review and considering economic, industry and public health challenges at that time, the Compensation Committee maintained the base salary of Mr. Taylor at $612,000.

With respect to our other two named executive officers other than our CEO, the base salary in 2020 of James Hazlett, our Vice President- Technical Services, remained unchanged from 2019 at $225,100. The base salary of James R. Lawrence, our Vice President and Chief Financial Officer at the time who joined the Company in October 2019, was increased from $200,000 to $210,000. Mr. Lawrence resigned in December 2020.

Annual salary reviews for Mr. Taylor and Mr. Hazlett were conducted in March 2021 and, in light of the continuing economic, industry and public health challenges, the Compensation Committee elected again to not increase the base salaries of these officers for 2021.

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 certain of 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 2020, the Committee maintained Mr. Taylor's target award opportunity at 100% of his base salary. Target award opportunity was 50% of average base salary for Mr. Hazlett.

For 2020, 90% of an executive officer's IBP award was based on achievement of company financial objectives relating to:

- Total revenues;
- Adjusted EBITDA; and
- Net income before taxes.

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

Each year, the Committee sets three performance levels 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 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.

2020 Annual Incentive Bonus Plan

2020 Executive Bonus Criteria	Revenue	Net loss before taxes	Adjusted EBITDA(1)
Threshold achievement pays 75% of bonus	$ 62,325,000	$ (3,788,000)	$ 20,762,000
Target achievement pays 100% of bonus	65,605,000	(2,148,000)	22,402,000
Stretch achievement pays 125% of bonus	67,573,000	(1,163,000)	23,387,000

(1) Adjusted EBITDA is an indicator of operating performance and is defined as the Company's earnings or loss before interest expense, income taxes (benefit), depreciation and amortization expense, impairment of goodwill, increase in inventory allowance, and loss on retirement of rental equipment.

The following table sets forth the maximum bonus eligibility set by the Committee for 2020 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 2020 under our Annual Incentive Bonus Plan:

Criteria	Actual 2020 Performance	Target Metric	Stretch Metric	Eligible Bonus Payment Percentage	Bonus Component	Payable Bonus
Revenue	$ 68,055,000	$ 65,605,000	$ 67,573,000	125 %	30 %	37.5 %
Net loss before taxes	(2,984,000)	(2,148,000)	(1,163,000)	75 %	30 %	22.5 %
Adjusted EBITDA(1)	22,703,000	22,402,000	23,387,000	100 %	30 %	30.0 %
Personal performance				100 %	10 %	10.0 %
Total						100.0 %

(1) Adjusted EBITDA is an indicator of operating performance and is defined as the Company's earnings or loss before interest expense, income taxes (benefit), depreciation and amortization expense, impairment of goodwill, increase in inventory allowance, and loss on retirement of rental equipment.

In 2020, our executives received (i) a stretch financial metric payout on revenue, as the Company's $68.1 million in revenue exceeded its stretch achievement level of $67.6 million; (ii) a threshold financial metric payout on net loss, as the Company's $3.0 million net loss before taxes met the threshold net loss of $3.8 million but was below the target net loss of $2.1 million; and (iii) a target threshold financial metric payout on Adjusted EBITDA, as the Company's $22.7 million of Adjusted EBITDA exceeded the target threshold requirement of $22.4 million but was below the stretch threshold of $23.4 million. The committee also awarded the full personal performance portion of the award to each of Messrs.Taylor and Hazlett considering the Company's *2020 Financial and Operation Highlights* on page 23 of this proxy statement as well as the extraordinary performance of both executives related to ensuring safe and continuous operations of the Company during the unprecedented economic, industry and public health challenges presented by the COVID-19 pandemic.

The following table summarizes the bonuses awarded under the IBP for 2020:

Name	Title	Base Salary	Max Bonus Eligibility	Bonus Base	Bonus Payout %	Bonus Payouts
Stephen C. Taylor	President & CEO	$ 612,000	100 %	$ 612,000	100 %	$ 612,000
James R. Hazlett	VP- Technical Services	225,100	50 %	225,100	100 %	112,550

Long-Term Incentives - Restricted Stock/Unit and Other Awards

The Compensation Committee continually reviews equity compensation trends of public companies and solicits feedback from its stakeholders and proxy advisors to determine the most appropriate executive compensation program for the Company’s executives, as well as its stakeholders. When reviewing the Company’s long-term incentive plan, the Compensation Committee considered a variety of factors when determining the appropriateness of the plan, which include:

- Address proxy advisory firms’ concerns related to the performance measurement period;
- Address the proxy advisor firms’ criticism of a perceived lack of rigor related to the TSR target goal;
- Address the issue of balance between time-based and performance-based long-term compensation;
- Acknowledge the Company’s belief that balancing short-term performance - demonstrating the agility of the leadership team - with long-term performance - demonstrating the ability of the leadership team to create durable value - is important in compensation awards, especially in cyclical industries; and
- Acknowledge the importance of the Compensation Committee’s judgment and board discretion in designing compensation programs that retain and motivate critical leadership that have provided positive returns to shareholders across cycles.

Based upon this review, the Compensation Committee determined it was appropriate to adjust the long-term incentive award in 2018 to provide a balance between a quantitative, performance-based award and a qualitative, discretionary award based on performance measures evaluated annually by the Compensation Committee and Board of Directors, a practice consistent with the Company's peers and, more generally, other oilfield services companies.

The performance-based award was based off the Company's relative prior three-year total shareholder return ("TSR") compared to the company-defined peer group. The Compensation Committee established the following award parameters based on the company's relative TSR performance.

The award is determined by the Company's ranking on the peer-based table below:

Total Shareholder Return: Long-Term Incentive Award Table

Relative TSR Performance Rank	Payout vs. Target	Award Payout
1	200%	Maximum
2	190%	
3	172%	
4	154%	
5	136%	
6	118%	
7	100%	Target
8	75%	
9	50%	
10	25%	Threshold
11	-%	
12	-%	
13	-%	
14	-%	

The qualitative, discretionary award was set to a maximum of 200% of the base pay of the named executive officer and will vest in equal parts over a three-year period. Performance measures taken into account include those provided in the *2020 Financial and Operational Highlights* section of this Proxy as well as other personal achievements of the respective executive officers. Other factors considered include demonstrated company leadership, financial stewardship, market effectiveness, and strategic vision, insight and execution.

The Compensation Committee considers restricted stock and restricted stock units 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 the Company. We believe that restricted stock aligns the interests of our executive officers with our shareholders in that our executive officers will benefit 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 discretionary determination of an officer's individual performance and his current contributions and potential for future contributions to the overall performance of the Company.

In early 2021, the Compensation Committee reviewed the Company's 2020 TSR performance against its peers and determined that the Company's prior three-year performance was sixth out of the Company identified 14-member peer group (including Natural Gas Services Group). Such performance, as noted in the accompanying table, entitled Mr. Taylor to a TSR performance-based award of 118% of his current base salary of $612,000.

With respect to Mr. Taylor's personal performance, the Committee considered his continued leadership in guiding the Company through past and current market downturns related to collapses in oil and natural gas prices by maintaining a strong balance sheet through reductions in operating and capital expenses. Mr. Taylor's leadership positioned the Company with a balance sheet that enabled it to significantly increase capital spending, without incremental debt, to meet the opportunity to establish a meaningful presence in the high horsepower compression market. Mr. Taylor developed significant contractual commitments from customers for the Company's high horsepower equipment, allowing it to grow its market share in a key new market.

After a review of all relevant Company and personal performance factors, the Committee agreed to provide Mr. Taylor an additional discretionary award equal to 200% (of a 200% maximum opportunity) of his current base salary of $612,000.

On a preliminary basis, Mr. Taylor's performance-based and discretionary long-term incentive awards totaled $1,946,160. Due to the current difficult economic and industry conditions and the resulting impact on the Company's share price, the Compensation Committee structured Mr. Taylor's long-term incentive award as follows:

- A long-term incentive award of $973,080 (50% of the total earned award) that vests in equal, annual tranches over three years, with the amounts being payable in cash or common stock at the time of vesting at the discretion of the Compensation Committee; and
- A long-term incentive award of 109,212 shares of restricted stock, which represents the balance of the total earned award. This was calculated by dividing $973,080 by a deemed share price of $8.91, which was the market closing price on March 18, 2021.

In addition, upon Mr. Taylor's recommendation, the Committee approved a discretionary grant of 20,000 shares of restricted stock to Mr. Hazlett.

All restricted stock grants were awarded under the Company's 2019 Equity Incentive Plan using the closing price of $8.91 per share as of March 18, 2021, with the totals noted in the table below:

Name	Dollar Value of the Award	Number of Restricted Shares or RSUs
Stephen C. Taylor, CEO and President	$ 973,079	109,212
James R. Hazlett, Vice President - Technical Services	$ 178,200	20,000

All of the restricted stock awards reported above are subject to a three-year vesting period, although such vesting is subject to acceleration and will immediately vest upon certain events, such as (i) death or disability of the recipient employee or (ii) certain circumstances in connection with a change of control in the Company. Further information concerning these awards is set forth in column (e) of the *"Summary Compensation Table"* on page 34 and column (i) of the *"Grants of Plan-Based Awards for 2020"* on page 36.

The Compensation Committee continuously evaluates the Company’s executive compensation plan to ensure that the each of the components of that plan is designed, when considered both individually and holistically, with the goal of attracting and retaining executive leadership capable of delivering industry leading results for shareholders. This review, with the assistance of Board-retained executive compensation experts, includes reviewing peer-group compensation programs, broader industry compensation trends, innovations in executive compensation design as well as seeking input from our shareholders and other stakeholders.

The Compensation Committee notes that there has been significant evolution in executive compensation plan design in the past several years including changes in standard performance measures and measurement periods. The Compensation Committee will continue to consider changes to industry executive compensation practices as it contemplates future changes to the Company’s executive compensation program.

In addition, in 2019, we adopted the 2019 Equity Incentive Plan ("the Plan") which went into effect upon its approval by our shareholders at our 2019 annual meeting. The Compensation Committee does not have any specific program or plan with regard to the timing or dating of restricted stock or units grants. However, the Committee's practice will likely be to grant awards after Natural Gas Services Group's annual earnings releases. We have not and do not plan to purposefully time the release of material non-public information for the purpose of affecting the value of executive compensation.

Total Direct Compensation

Among its peer group companies, the total shareholder return from NGS was in the 69th percentile in 2020, 62nd percentile over the past three years and the 67th percentile over the past five years.

Due to the significant economic and industry dislocations resulting primarily from the public health challenges presented by the COVID-19 pandemic and significantly lower energy commodity prices, a number of our former peer group companies have either filed for bankruptcy protection or ceased operations, requiring changes to our peer group and related CEO compensation comparisons. Due to such changes data comparing the Company's Chief Executive Officer's pay to the peer group may be less reliable as a relative measure than in previous years.

Employment Agreements

Stephen C. Taylor, our President and Chief Executive Officer, joined the Company 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 47 of this Proxy Statement for detailed information concerning Mr. Taylor's employment agreement, as amended.

Allocation of Amounts and Types of Compensation

The Committee has not adopted a specific policy or target for the allocation between amounts or types of compensation. The Committee considers data from the peer group companies in reviewing compensation allocations and practices and strives to create a balance between short- and long-term compensation through (i) reasonable base salary amounts, (ii) the IBP cash bonus program for achieving short-term financial and operational metrics, along with personal performance achievements and (iii) long-term incentive through equity awards under the Company's equity incentive plan. The Committee believes its allocation methodology does not over-emphasize short-term performance at the expense of achieving long-term goals.

Perquisites

We provide limited perquisites to our executives. The primary perquisites allow our executives a choice of receiving an automobile allowance or personal use of a company-provided automobile. Although we provide Mr. Taylor with Midland Petroleum 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 34.

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.

Say-on-Pay

At our 2020 Annual Meeting of Shareholders held in August 2020, we submitted a proposal to our shareholders regarding our executive compensation practices. The proposal was an advisory vote on the 2019 compensation awarded to our named executive officers (commonly known as a "say-on-pay" vote). Our shareholders disapproved our 2019 compensation with approximately 49.6% of the votes cast on the proposal voting in favor of our 2019 executive compensation practices.

Our management, Compensation Committee and Board of Directors (along with our Compensation Consultants) have carefully reviewed our executive compensation plan as well as input provided by stakeholders, including our shareholders and proxy advisory services. While we have been limited in face-to-face dialogue with key stakeholders due to the COVID-19 pandemic, we have had comprehensive dialogue with our shareholders and other stakeholders regarding our executive compensation program. In recent years, we initiated several new compensation and governance measures that address concerns raised by our stakeholders, including:

- adopting a clawback policy that covers all executive officers;
- adopting executive and Director stock ownership guidelines;
- extending the vesting terms on restricted stock awards made to our executive officers to three years;
- calculating a portion of our CEO's long-term equity award to meeting set objective total shareholder returns compared to our Custom Peer Group;
- adopting a majority votes cast requirement with respect to the election of Directors; and
- amending our Corporate Governance Guidelines to include an independent Lead Director. Charles G. Curtis was appointed Lead Director in April 2016 and served in that capacity until his retirement from the Board in June 2020. John W. Chisholm was appointed Lead Director in June 2020.

NGS is committed to aligning our executive compensation practices with the best interests of our stakeholders. The Company, in previous years, has attempted to engage proxy advisory services in discussions to better understand and respond to their concerns and critiques of our compensation structure. While we have been confounded by the reticence of proxy advisory firms to engage in dialogue, we have worked diligently with our shareholders (please see "Shareholder Engagement" on page 15) to ensure our executive compensation structure meets our shareholders' expectations and is designed to elicit optimal performance from our executives.

As a result of the COVID-19 pandemic and its impact on our business, the Board of Directors and the Compensation Committee determined that the actions of our executive management team resulted in the Company protecting the health and safety of our employees while maintaining continuous commercial operations that resulted in improved cash balances, reduced but profitable field operations and flexible business model that provided for relative employee stability and safety without sacrificing the ability to meet customer needs. While 2020 compensation may not directly reflect the performance of our equity, the preservation our enterprise without compromising employee safety or customer responsiveness are, in the Board's opinion, attributes that deserve appropriate recognition and compensation.

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.

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 intend to amend our clawback policy if necessary to comply with the SEC rules and NYSE implementation of those rules.

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 our independent Directors, executive officers and employees from engaging in certain forms of hedging or similar monetization transactions. Any deviation from the policy must be approved in advance by our CEO and Board. To our knowledge, all such individuals are in compliance with this policy.

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 aligning 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. Shares included in the minimum share ownership calculation include: shares owned outright or beneficially owned; vested restricted stock; vested restricted stock units in our Deferred Compensation Plan; and shares issued from the exercise of vested options.

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 Environmental, Social and Governance and Personnel Development Committee. Presently, all of our Directors and our executive officers have attained or exceeded their ownership requirements.

The table below sets forth the compensation earned by our CEO, Stephen C. Taylor, and our other named executive officers for services rendered to us for the fiscal years ended December 31, 2020, 2019 and 2018.

Summary Compensation Table

Name and Principal Position	Year	Salary(3)	Bonus (4)	Stock Awards(5)	Option Awards(6)	Non-Equity Incentive Plan Compensation (7)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(8)	All Other Compensation(9)	Total
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Stephen C. Taylor, Chairman, President & CEO	2020	$ 612,000	$ —	$ 973,079	$ —	$ 1,585,080	$ —	$ 18,790	$ 3,188,949
	2019	607,181	—	530,910	—	1,289,513	—	15,733	2,443,337
	2018	590,733	—	2,276,643	—	147,693	—	17,181	3,032,250
James R. Hazlett, Vice President-Technical Services	2020	225,100	—	178,200	—	112,550	—	23,619	539,469
	2019	224,596	—	56,400	—	42,112	—	34,824	357,932
	2018	218,300	—	345,800	—	54,575	—	31,542	650,217
James R. Lawrence, VP & Chief Financial Officer(1)	2020	205,346	—	—	—	—	—	19,022	224,368
	2019	45,385	—	61,300	—	—	—	4,381	111,066
	2018	—	—	—	—	—	—	—	—
G. Larry Lawrence, Former VP & Chief Financial Officer(2)	2020	—	—	—	—	—	—	—	—
	2019	198,858	—	—	—	32,871	—	15,461	247,190
	2018	204,101	—	345,800	—	51,205	—	16,629	617,735

(1) Mr. J.R. Lawrence joined the Company on October 1, 2019 and was appointed as our Vice President and Chief Financial Officer on November 16, 2019. Mr. J.R. Lawrence gave notice of his resignation in December 2020.

(2) Mr. G.L. Lawrence retired from the Company on November 15, 2019. Mr. G.L. Lawrence rejoined the Company in January 2021 and was appointed our interim Vice President and Chief Financial Officer.

(3) The amounts in column (c) includes amounts deferred under our Deferred Compensation Plan and 401(k) Plan. The Company has not made any contributions to the Deferred Compensation Plan.

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

(5) The amounts in column (e) reflect the grant date fair value of restricted stock/unit awards in accordance with FASB ASC Topic 718. The awards earned in 2020 are discussed in further detail on page 28 under the caption "Long-Term Incentives - Restricted Stock/Unit and Other Awards."

(6) The amounts in column (f) reflect the dollar amounts recognized for financial statement reporting purposes for the fiscal years ended December 31, 2020, 2019 and 2018, in accordance with FASB ASC Topic 718, associated with stock option grants under our Stock Option Plan.

(7) The amounts in column (g) reflect the cash bonus awards to the named executive officers under our Annual Incentive Bonus Plan, including amounts deferred under our Deferred Compensation Plan. This is discussed in further detail on page 27 under the caption "Short-Term Incentives - Annual Incentive Bonus Plan." For 2020 and 2019, the amount in column (g) for Mr. Taylor also includes a long-term incentive award of $973,080 and $1,061,820 (50% of his long-term

incentive awards earned for each year), respectively, payable in either cash or a variable number of shares at the discretion of the Compensation Committee. These fixed value awards are subject to three-year vesting in equal, annual tranches. This awards are discussed in further detail on page 28 under the caption "Long-Term Incentives - Restricted Stock/Unit and Other Awards."

(8) The Deferred Compensation Plan referred to column (h) does not pay above-market or preferential earnings.

(9) 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 shown in the table below.

All Other Compensation Table

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
Stephen C. Taylor	2020	$ —	$ 1,800	$ 8,440	$ 8,550	$ 18,790
	2019	—	1,800	8,103	5,830	15,733
	2018	—	1,800	9,720	5,661	17,181
James R. Hazlett	2020	10,200	—	6,360	7,059	23,619
	2019	10,200	—	17,580	7,044	34,824
	2018	10,200	—	14,487	6,855	31,542
James R. Lawrence	2020	9,000	—	3,567	6,455	19,022
	2019	2,008	—	1,650	723	4,381
	2018	—	—	—	—	—
G. Larry Lawrence	2020	—	—	—	—	—
	2019	9,219	—	—	6,242	15,461
	2018	10,200	—	—	6,429	16,629
Total	2020	19,200	1,800	18,367	22,064	61,431
	2019	21,427	1,800	27,333	19,839	70,399
	2018	20,400	1,800	24,207	18,945	65,352

Grants of Plan-Based Awards

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

Grants of Plan-Based Awards for 2020

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards						
Name	Grant Date	Threshold ($)	Target ($)	Maxi-mum ($)	Threshold (#)	Target	Maxi-mum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	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	3/18/2021[(1)]	—	—	—	—	—	—	109,212	—	—	$ 973,079
	3/18/2021[(2)]	—	$ 973,080	—	—	—	—	—	—	—	—
	3/29/2020[(3)]	$ 474,300	$ 612,000	$749,700	—	—	—	—	—	—	—
James R. Hazlett	3/18/2021[(1)]	—	—	—	—	—	—	20,000	—	—	178,200
	3/29/2020[(3)]	87,188	112,500	$137,813	—	—	—	—	—	—	—

(1) The amounts shown on these rows reflects the awards of restricted stock or units earned in 2020 that were issued in March 2021 to Messrs. Taylor and Hazlett.

(2) Reflects a long-term incentive award made to Mr. Taylor of $973,080 payable in either cash or a variable number of shares at the discretion of the Compensation Committee. This award was earned in 2020 and issued in March 2021. This fixed value award is subject to three-year vesting in equal, annual tranches. This award is discussed in further detail on page 28 under the caption "Long-Term Incentives - Restricted Stock/Unit and Other Awards."

(3) The amounts on these rows assume, under the structure of our Annual Incentive Bonus Plan, that each executive officer receives his full personal performance portion (10%) of the bonus and each of the 30% metrics are achieved under threshold (75% payout), target (100% payout), and maximum / stretch (125% payout) levels. As discussed in further detail on page 27 under the caption "Short-Term Incentives - Annual Incentive Bonus Plan," the actual payouts in April 2021 that were earned in 2020 were as follows: Mr. Taylor - $612,000 and Mr. Hazlett - $112,550.

1998 Stock Option Plan

Our 1998 Stock Option Plan, as amended and restated, provides for the issuance of stock options to purchase up to 1,000,000 shares of our common stock. The purpose of this plan is to attract and retain the best available personnel for positions of substantial responsibility and to provide long-term incentives to employees and consultants and to promote the long-term growth and success of our business. The plan is administered by the Compensation Committee of the Board of Directors. At its discretion, the Compensation Committee determines the persons to whom stock options may be granted and the terms upon which options will be granted. In addition, the Compensation Committee may interpret the plan and may adopt, amend and rescind rules and regulations for its administration. Option awards are generally granted with an exercise price equal to the closing price of our common stock at the date of grant and generally vest based on three years of continuous service and have ten-year contractual terms.

As of December 31, 2020, stock options to purchase a total of 161,334 shares of our common stock were outstanding under the 1998 Stock Option Plan, as amended and restated, and a total of 384,503 shares of common stock were available at December 31, 2020 for future grants of stock options under the plan. Since the beginning of 2021, we have issued no stock options to purchase shares of our common stock, but had 16,000 shares returned to the pool due to forfeitures. This left 400,503 shares available under the 1998 Stock Option Plan as of April 25, 2021.

2009 Restricted Stock/Unit Plan

As of April 25, 2021, no unvested shares of common stock remain reserved for potential issuance under outstanding awards. 33,693 shares of common stock were not issued, are not subject to any outstanding awards, and may no longer be issued in connection with the expiration of the 2009 Plan on June 16, 2019.

2019 Equity Incentive Plan

On June 20, 2019, the Company's shareholders approved our 2019 Equity Incentive Plan ("2019 Plan"). Except with respect to awards then outstanding, unless sooner terminated by the Board, the Plan will expire on the tenth anniversary of the date it was approved by shareholders (June 20, 2029) and no further awards may be granted after such date. The purposes of the 2019 Plan are to enable the Company to attract and retain the types of employees, consultants and Directors who will contribute to the Company's long range success; provide incentives that align the interests of employees, consultants and Directors with those of the shareholders of the Company; and promote the success of the Company's business.

The following summary of the material terms of the 2019 Plan is qualified in its entirety by the full text of the 2019 Plan, a copy of which was filed with our proxy statement for 2019 and may be obtained, free of charge, by writing to the Company, Attention: Alicia Dada, Investors Relations, 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705.

Shares Available for Awards and Limits on Awards. The Company has reserved an aggregate of 500,000 shares of common stock to be awarded under the 2019 Plan. Up to 250,000 of these shares may be issued under the 2019 Plan, in the aggregate, through the exercise of incentive stock options. No non-employee Director may be granted awards, during any fiscal year, with respect to shares of common stock that, together with any cash fees paid to the Director during the fiscal year, have a total value that exceeds $250,000 (calculating the value of any awards based on the grant date fair value for financial reporting purposes).

As of March 31, 2021, we have issued 445,907 shares under the 2019 Plan. Of these shares, 127,215 have vested and are no longer subject to any restrictions or possible forfeiture and 3,333 shares were forfeited and returned to the pool. Vested shares include shares that were withheld for taxes and, under the terms of the 2019 Plan, cannot be re-issued. 315,359 unvested shares of common stock remain reserved for potential issuance under outstanding awards and may be issued if the vesting terms of such outstanding awards are met. Accordingly, 57,426 shares are available to be issued under the 2019 Plan as of March 31, 2021.

If any outstanding award expires or is canceled, forfeited, or terminated without issuance of the full number of shares of common stock to which the award related, then the number of shares available under the 2019 Plan will be increased by the portion of the award that expired, or was canceled, forfeited or terminated. Shares tendered in payment of the option exercise price, shares delivered or withheld by the Company to satisfy any tax withholding obligation, or shares covered by a stock-settled stock appreciation right or other awards that were not issued upon the settlement of the award will not again become available for future grants under the 2019 Plan.

Awards may be granted under the 2019 Plan in assumption of, or in substitution for, outstanding awards previously granted by an entity acquired by the Company or with which the Company combines. The Committee (as defined below) will make appropriate adjustments to these limits to prevent dilution or enlargement of the rights of participants under the 2019 Plan.

Administration and Amendment. The 2019 Plan will be administered by the one or more Directors appointed by the Board (the "Committee"), or, in the Board's discretion, by the Board. The Committee will have the authority to, among other things, interpret the 2019 Plan; determine who will be granted awards under the 2019 Plan; prescribe the terms and conditions of each award; interpret, administer, reconcile any inconsistency in, correct any defect in, and supply any omission in the 2019 Plan; and exercise discretion to make any and all other determinations which it determines to be necessary or advisable for the administration of the 2019 Plan.

The Committee may also amend the terms of any one or more awards. However, the Committee may not affect any amendment which would otherwise constitute an impairment of the rights under any award unless the Company requests the consent of the participant and the participant consents in writing.

The Board may amend the 2019 Plan. However, except in the case of adjustments upon changes in common stock, no amendment will be effective unless approved by the shareholders of the Company to the extent shareholder approval is necessary to satisfy any applicable laws.

Eligibility. The Board selects participants from among the key employees, consultants and Directors of the Company and its affiliates. Only employees are eligible to receive incentive stock options.

Available Awards. Awards that may be granted under the 2019 Plan include restricted stock, restricted stock units (RSUs), performance awards, stock options (including both incentive stock options (ISOs) and nonqualified stock options), stock appreciation rights (SARs), and other stock-based awards. The terms of each award will be set forth in a written agreement.

Restricted Stock. A restricted stock award is an award of actual shares of common stock which are subject to certain restrictions for a period of time determined by the Committee. Restricted stock may be held by the Company in escrow or delivered to the participant pending the release of the restrictions. The participant generally has the rights and privileges of a shareholder as to such restricted stock during the restricted period, including the right to vote the restricted stock and the right to receive dividends

Restricted Stock Units. An RSU is an award of hypothetical common stock units having a value equal to the fair market value of an identical number of shares of common stock, which are subject to certain restrictions for a period of time determined by the Committee. No shares of common stock are issued at the time an RSU is granted, and the Company is not required to set aside any funds for the payment of any RSU award. Prior to settlement of an RSU award and the receipt of shares, the participant does not have any rights as a shareholder with respect to such shares. The Committee may grant RSUs with a deferral feature (deferred stock units or DSUs), whereby settlement of the RSU is deferred beyond the vesting date until a future payment date or event set out in the participant's award agreement. The Committee has the discretion to credit RSUs or DSUs with dividend equivalents.

Performance Share Awards. A performance share award is an award of shares of common stock that are only earned if certain conditions are met. The Committee has the discretion to determine the following: the number of shares of common stock or stock-denominated units subject to a performance share award; the applicable performance period; the conditions that must be satisfied for a participant to earn an award; and the other terms, conditions and restrictions of the award. The number of performance shares earned by a participant depends on the extent to which the performance goals established by the Committee are attained within the applicable performance period. No payout is made with respect to any performance share award except upon written certification by the Committee that the minimum threshold performance goal(s) have been achieved.

Stock Options. A stock option is the right to purchase shares of common stock at a future date at a specified price per share called the exercise price. An option may be either an ISO or a nonqualified stock option. ISOs and nonqualified stock options are taxed differently. Except in the case of options granted pursuant to an assumption or substitution for another option, the exercise price of a stock option may not be less than the fair market value (or in the case of an ISO granted to a ten percent shareholder, 110% of the fair market value) of a share of common stock on the grant date. As of the record date, the closing price of our common stock was $9.05. Full payment of the exercise price must be made at the time of such exercise either in cash or bank check or in another manner approved by the Committee.

Stock Appreciation Rights. A SAR is the right to receive payment of an amount equal to the excess of the fair market value of a share of common stock on the date of exercise of the SAR over the exercise price. The exercise price of a SAR may not be less than the fair market value of a share of common stock on the grant date. SARs may be granted alone ("freestanding rights") or in tandem with options ("related rights").

Other Equity-Based Awards. The Committee may grant other equity-based awards, either alone or in tandem with other awards, in amounts and subject to conditions as determined by the Committee as set out in an award agreement.

Vesting. The 2019 Plan allows for awards subject to either time-based vesting or performance-based vesting, or both. All awards granted under the 2019 Plan must have a minimum vesting period of at least one year. The Committee has the authority to determine the vesting schedule of each award (subject to the minimum one-year requirement), and to accelerate the vesting and ability to exercise any award. The Company's practice over the last several years has been to grant restricted stock/unit awards to its executive officers and independent Directors, and stock options to selected non-executive employees. Restricted stock/unit awards to our (i) executive officers have been subject to time-based vesting in equal one-third installments over a three-year period from the grant date and (ii) independent Directors have been subject to time-based vesting in equal quarterly installments beginning in the year following the year in which they are granted. Starting in 2020, the awards to independent Directors are subject to one-year cliff vesting. Stock options granted to our non-executive employees typically vest in equal, one-third tranches over a three-year period. Past vesting requirements may not be indicative of future vesting requirements set by the Committee, which may be less or more onerous than in prior years.

Clawback and Recoupment. The Company may cancel any award or require the participant to reimburse any previously paid compensation provided under the 2019 Plan or an award agreement in accordance with the Company’s clawback policy.

Termination of Service. Unless otherwise set forth in an individual award agreement or in an employment agreement approved by the Committee, any unvested restricted shares, performance shares, RSUs, PSUs and other equity-based awards will immediately be forfeited upon termination of continuous service under the 2019 Plan. Under the Company's restricted stock and RSU award agreements, if the grantee's continuous service terminates as a result of the grantee's death, Disability (as defined in the 2019 Plan), termination without Cause (as defined in the 2019 Plan and below) or termination for Good Reason (as defined), 100% of the grantee's unvested shares will vest.

Unless otherwise set forth in an individual award agreement or in an employment agreement approved by the Committee, in the event an option holder's continuous service terminates, an option holder may exercise his or her option (to the extent the option holder was entitled to exercise such option at the date of termination) within the earlier of three months following the date of termination or the expiration of the option term. Unless otherwise set forth in an individual award agreement, in the event an option holder's continuous service terminates upon his or her death or Disability (as defined), an option holder or his or her estate may exercise his or her option (to the extent the option holder was entitled to exercise such option at the date of termination), within the earlier of 12 months following the date of termination or the expiration of the option term.

In regards to the definition of Cause under the 2019 Plan, if a participant is under an employment or service agreement with the Company and such agreement provides for a definition of Cause, that definition should be used. If no such agreement exists, or if such agreement does not define Cause, then Cause is defined as (i) the conviction of, or plea of guilty or no contest to, a felony or a crime involving moral turpitude or the commission of any other act involving willful malfeasance or material fiduciary breach with respect to the Company or an Affiliate; (ii) conduct that results in or is reasonably likely to result in harm to the reputation or business of the Company or any of its Affiliates; (iii) gross negligence or willful misconduct with respect to the Company or an Affiliate; or (iv) material violation of state or federal securities laws.

In regards to the definition of Good Reason under the 2019 Plan, if a participant is under an employment or service agreement with the Company and such agreement provides for a definition of Good Reason, that definition should be used. If no such agreement exists, or if such agreement does not define Good Reason, Good Reason is defined as the occurrence of one or more of the following without the participant’s express written consent, which circumstances are not remedied by the Company within thirty (30) days of its receipt of a written notice from the participant describing the applicable circumstances (which notice must be provided by the participant within ninety (90) days of the participant's knowledge of the applicable circumstances): (i) any material, adverse change in the participant's duties, responsibilities, authority, title, status or reporting structure; (ii) a material reduction in the participant’s base salary or bonus opportunity; or (iii) a geographical relocation of the participant's principal office location by more than fifty (50) miles.

Change in Control. A Change in Control is defined as (a) the acquisition by one person or more than one person acting as a group, of Company stock representing more than 50% of the total fair market value or total voting power of the Company’s stock; (b) a merger, consolidation or other reorganization in which the Company is not the surviving entity unless the Company’s shareholders immediately prior to the merger, consolidation or other reorganization maintain at least 50% of the voting power; (c) a majority of the incumbent members of the Board are replaced by Directors whose appointment or election is not endorsed by at least two-thirds of the Board; or (d) the acquisition by one person or more than one person acting as a group, of all or substantially all of the Company’s assets.

Unless otherwise provided in an award agreement, in the event of a participant’s termination of service without Cause or for Good Reason during the 18-month period following a Change in Control, the vesting of all awards will fully accelerate and all outstanding options and SARs will become immediately exercisable as of the date of the participant’s termination of service.

In the case of performance awards, in the event of a participant’s termination of service without Cause or for Good Reason, in either case, within 18 months following a Change in Control, all performance goals or other vesting criteria will be deemed achieved at 100% of target levels and all other terms and conditions will be deemed met as of the date of the participant’s termination of service.

In the event of a Change in Control, the Committee may in its discretion and upon at least 10 days' advance notice to the affected persons, cancel any outstanding awards and pay to the holders the value of the awards based upon the price per share of common stock received or to be received by other shareholders of the Company in the event. In the case of any option or SAR with an exercise price that equals or exceeds the price paid for a share of common stock in connection with the change in control, the Committee may cancel the option or SAR without the payment of any consideration.

Outstanding Equity Awards at Fiscal Year-End

The following table shows certain information about unvested restricted stock/units and unexercised stock options outstanding as of December 31, 2020 and held by our Chief Executive Officer, Stephen C. Taylor, and each other named executive officer.

Outstanding Equity Awards at 2020 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	—	—	—	—	—	28,233	$ 267,649	—	—
	—	—	—	—	—	87,783	832,183	—	—
	—	—	—	—	—	94,133	892,381	—	—
James R. Hazlett	10,000	—	—	$ 17.81	1/24/2021	—	—	—	—
	—	—	—	—	—	6,666	63,194	—	—
	—	—	—	—	—	13,333	126,397	—	—
	—	—	—	—	—	10,000	94,800	—	—
James R. Lawrence	—	—	—	—	—	3,333	31,597	—	—

Option Exercises and Stock Vested in 2020

In the table below, we show certain information about (i) the number of shares of common stock acquired upon exercise of stock options by each of the named executive officers in 2020 and the value realized on exercise of the stock options and (ii) stock awards.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting(1)	Value Realized on Vesting(1)
(a)	(b)	(c)	(d)	(e)
Stephen C. Taylor	—	$—	54,184	$ 299,538
James R. Hazlett	—	—	13,668	73,391
James R. Lawrence	—	—	1,667	14,803
G. Larry Lawrence	—	—	—	—

(1) Excludes the following shares that vested (with values upon vesting) and were contributed to the Company's nonqualified deferred compensation plan as follows: Mr. Taylor - 41,429 shares for $334,849; and Mr. Hazlett - 6,334 shares for $33,488.

Nonqualified Deferred Compensation

We adopted a Deferred Compensation Plan in December 2015, which permits eligible employees, including our NEOs, and our Directors to annually elect to defer a portion of their salary, commissions, cash bonus, Director fees and/or stock awards they would otherwise have received when earned. Under this plan, participants can defer up to 90% of their salary, commissions, cash bonus, Director fees and stock awards. Cash amounts deferred under the Deferred Compensation Plan are deemed invested in the investment funds selected by the participant with similar options as available under the Company's 401(k) Plan. We have option to contribute but do not currently contribute to the Deferred Compensation Plan on behalf of its participants or match the deferrals made by participants.

At the time of deferral, a participant must indicate whether he or she wishes to receive the amount deferred while in-service or upon separation of service. In either case, the payment will be in either a lump sum or in substantially equal annual installments. In-service installments cannot exceed five years, while installments elected to start upon separation of service cannot exceed ten years. If separation is due to a disability or a change in control, deferrals will be paid similar to deferrals paid upon separation of service, while deferrals related to death will be paid in a lump sum to the participant's beneficiary. If a participant experiences an unforeseeable emergency during the deferral period, the participant may petition to receive a partial or full payout from the Deferred Compensation Plan. All distributions are made in cash, except for deferred stock awards which are settled in Company stock.

Deferred Compensation Table

Name	Beginning Aggregate Balance	Executive Contributions in Last FY ($) (1)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)
Stephen C. Taylor	$ 1,949,878	$ 514,333	$ —	$ 108,843	$ —	$ 2,573,054
G. Larry Lawrence	385,979	1,644	—	(230,073)	—	157,550
James R. Hazlett	267,342	48,954	—	22,708	—	339,004

(1) All contributions were from salary, bonus and stock deferrals in 2020. The Company has made no contributions to the Deferred Compensation Plan.

Potential Payments Upon Termination or Change of Control

Our 1998 Stock Option Plan and 2019 Equity Incentive Plan contains "change of control" provisions. These provisions are designed to provide some assurance that we will be able to rely upon each executive's services and advice as to the best interests of Natural Gas Services Group and our shareholders without concern that the executive might be distracted by the personal uncertainties and risks created by any proposed or threatened change of control and to promote continuity of our executive team.

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

Likewise, under our 2019 Equity Incentive Plan, in the event of a participant's termination without Cause or for Good Reason during the 18-month period following a change of control (as defined in the plan), all awards under the plan will immediately vest. In addition, upon death or disability, any vesting or other restrictions on the restricted stock awards will accelerate or lapse such that all shares underlying a restricted stock award will become unencumbered.

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

At December 31, 2020, our named executive officers had the following number of unvested restricted stock awards which were subject to forfeiture as of that date:

- Stephen C. Taylor -- 210,149 shares
- James R. Hazlett -- 29,999 shares
- James R. Lawrence -- 3,333 shares

Each of these restricted stock awards could have become vested and issued without restrictions 18 months after December 31, 2020, assuming a change of control were to have occurred on that date. In addition, the restricted stock awards would have been issued without restrictions on December 31, 2020, assuming the named executive officer had died or become disabled. The closing price of our common stock on December 31, 2020, was $9.48 per share. As a result, there was a potential for Messrs. Taylor, Hazlett and J. Lawrence to realize immediate value upon the lapse of restrictions on restricted stock awards on December 31, 2020 as follows: Mr. Taylor - $1,992,213; Mr. Hazlett - $284,391; and Mr. J. Lawrence - $31,597.

As described under "*Compensation Agreements with Management*" on page 47, we entered into a written employment agreement with Stephen C. Taylor, President, Chief Executive Officer and Chairman of the Board in October 2013. Under the employment agreement, Mr. Taylor is eligible for certain benefits in connection with a change in control. These provisions were included in Mr. Taylor's initial employment agreement with us and were continued in his current agreement as part of our negotiations with Mr. Taylor as to the terms of his employment and as an inducement for him to continue his employ with our company. The change of control and severance provisions were designed to promote stability and continuity with respect to Mr. Taylor's employment as our President and Chief Executive Officer.

Chief Executive Officer Potential Payments Table

The following table summarizes the benefits in effect as of December 31, 2020 that Mr. Taylor would receive assuming that a qualifying termination (i.e., a termination described in footnote 2 below) in connection with a change in control death or disability or a termination by the Company without cause, or a voluntary termination by Mr. Taylor with and without good reason, occurred on December 31, 2020. Those payments that are available generally to salaried employees that do not discriminate in scope, terms or operation in favor of executive officers are also not included in this table.

Named Executive Officer Stephen C. Taylor	Qualifying Termination in Connection with a Change in Control, Voluntary Resignation with Good Reason, or Termination by Company without Cause (1) ($)	Death or Disability (2) ($)	Termination by Company with Cause, Voluntary Termination without Good Reason ($)	Retirement ($)
Acceleration of Unvested Restricted Stock Units (3)	$ 1,992,213	$ 1,992,213	$ —	$ —
Acceleration of Unvested Cash Incentive Compensation (4)	1,061,820	1,061,820		
Severance	4,131,000	—	—	—
Medical, Dental, and Vision Benefits	26,710	—	—	—
Life Insurance Premiums	—	—	—	—
TOTAL	$ 7,211,743	$ 3,054,033	$ —	$ —

(1) See "*Compensation Agreements with Management*" beginning on page 46 for definitions and discussion of Mr. Taylor's severance package in connection with termination due to change of control, voluntary resignation with good reason or termination by the Company without cause.

(2) In the event of Mr. Taylor's employment terminates on account of death or disability,100% of unvested Restricted Stock and long term cash incentive awards will immediately vest.

(3) The value attributable to the acceleration of unvested Restricted Stock awards is based upon the number of awards multiplied by the closing price of our common stock ($9.48) on December 31, 2020.

Pay Ratio

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the ratio of the compensation of our Chairman and Chief Executive Officer compared to the median total annual employee compensation in 2020 is set forth below. SEC rules require the Company to disclose annually (i) the median of the annual total compensation of all employees of the Company (excluding the Company's principal executive officer, Stephen C. Taylor); (ii) the annual total compensation of the Mr. Taylor; and (iii) the ratio of Mr. Taylor's annual total compensation to the median annual total compensation of all employees (excluding Mr. Taylor).

Based on the methodology and material assumptions described below, the Company has estimated these amounts to be as follows:

Median annual total compensation of all employees (excluding Mr. Taylor)	$	70,002
Annual total compensation of Mr. Taylor	$	3,188,949
Ratio of Mr. Taylor’s annual total compensation to median annual total compensation of all other employees		46:1

The annual total compensation of Mr. Taylor is the total amount of his compensation presented in the '*Summary Compensation Table'* on page 35. The Company determined the annual total compensation of the median employee shown above using the same rules applicable to the completion of the Summary Compensation Table for Mr. Taylor and the other named executive officers. As of December 31, 2020, the Company had 229 employees.

Compensation of Directors

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

The following table discloses the cash, equity awards and other compensation earned, paid or awarded, as the case may be, to each of our non-employee Directors during the fiscal years ended December 31, 2020, 2019 and 2018:

Name	Year	Fees Earned Or Paid ($)[1]	Stock Awards ($)[2]	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
(a)		(b)	(c)	(d)	(e)	(f)	(g)	(h)
Charles G. Curtis	2020	$ 32,500	$ 24,996	$ —	$ —	$ —	$ —	$ 57,496
	2019	60,000	100,005	—	—	—	—	160,005
	2018	55,000	99,968	—	—	—	—	154,968
David L. Bradshaw	2020	65,000	24,996	—	50,000	—	—	139,996
	2019	65,000	100,005	—	—	—	—	165,005
	2018	65,000	99,968	—	—	—	—	164,968
John Chisholm	2020	60,000	24,996	—	50,000	—	—	134,996
	2019	55,000	100,005	—	—	—	—	155,005
	2018	55,000	99,968	—	—	—	—	154,968
William F. Hughes, Jr.	2020	65,000	24,996	—	50,000	—	—	139,996
	2019	65,000	100,005	—	—	—	—	165,005
	2018	65,000	99,968	—	—	—	—	164,968
Leslie A. Beyer	2020	27,500	12,499	—	—	—	—	39,999
	2019	—	—	—	—	—	—	—
	2018	—	—	—	—	—	—	—

(1) Our non-employee Directors are paid a quarterly cash fee. The cash fee payable to our non-employee Directors was $12,500 per quarter for 2020, 2019 and 2018. In addition, (i) the Chairman of the Audit Committee, David L. Bradshaw, and the Chairman of the Compensation Committee, William F. Hughes Jr., were entitled to an additional quarterly cash fee in the amount of $3,750; (ii) the Chairman of the Nominating Committee, John W. Chisholm, and the Chairman of the Governance and Personnel Development Committee, Charles G. Curtis, were entitled to an additional quarterly cash fee in the amount of $1,250; and (iii) Mr. Curtis was entitled to an additional $5,000 annually for his role as Lead Director.

(2) On April 28, 2020, each of our non-employee Directors were granted 4,432 restricted shares/units at an issue price of $5.64 per share; on October 15, 2020, Ms. Beyer was granted 1,324 restricted shares/units at an issue price of $9.44; on March 29, 2019, each of our non-employee Directors were granted 5,784 restricted shares/units at an issue price of

$17.29 per share; and on March 15, 2018, each of our non-employee Directors were granted 4,072 restricted shares/units at an issue price of $24.55 per share.

Cash Compensation Paid to Independent Directors

We pay our non-employee Directors a quarterly cash fee for their attendance at each meeting of our Board of Directors. The cash fee payable to our non-employee Directors for 2020, 2019 and 2018 was $12,500 per quarter. In addition, the Chairmen of the Audit and Compensation Committees were entitled to an additional quarterly cash fee in the amount of $3,750, while the Chairmen of the Nominating and Governance and Personnel Development Committees were entitled to an additional quarterly cash fee of $1,250. We paid $10,000 annually to Mr. Chisholm for his role as Lead Director.

For 2021, the Compensation recommended and the Board of Directors approved (i) an increase for the cash retainer of each independent director from $50,000 to $55,000; (ii) a $15,000 annual fee for the Chairman of the ESG Committee and; (iii) an increase to the annual fee paid to Mr. Chisholm to $15,000 for his role as Lead Director and Chairman of the Nominating Committee.

Equity Based Compensation Paid to Independent Directors

Our compensation policy for independent Directors is to grant an annual award of restricted shares based upon a review of equity award values paid by other public companies in the Company's peer group and the Company's market and financial performance in comparison to such peer group companies. For 2020, based upon the Company's performance compared to its peer group, the Compensation Committee recommended and the Board approved an equity award value of approximately $100,000 in restricted stock/units. In connection therewith, each of our four independent Directors was granted for 2020 the amount of 4,432 restricted shares/units, pursuant to the 2019 Equity Incentive Plan, which was calculated by dividing $50,000 by a deemed share price of $11.28 (two times the market closing price of $5.64 on April 28, 2020) that effectively reduced each independent Director's restricted stock award by 50% and their total awards by 25%. The restricted shares/units vest one year from the date of grant.

On April 1, 2021, William F. Hughes retired and resigned from his position as a member of the Board of Directors of the Company. In recognition of Mr. Hughes' longstanding service, the Compensation Committee voted to accelerate the vesting of the following unvested shares, free of any further restrictions:

- 3,989 restricted stock units
- 443 restricted stock awards

On March 18, 2021, the Compensation Committee recommended and the Board approved the continuation of its annual equity award policy of $100,000 in value of restricted stock, for 2020. However, because of the depressed nature of the energy industry and dilutive nature of the Company's stock at current market prices, the Board determined to modify this year's award into a 50/50 split of stock and cash. In connection therewith, three independent Directors were granted the following:

- An award of $50,000 in cash (50% of the total) that vests one year from the date of grant; and
- An award of 5,612 shares of restricted stock, which was calculated by dividing $50,000 by a deemed share price of $8.91. These awards of restricted stock vest one year from the date of grant and are subject to acceleration in certain events.

On April 1, 2021, the Board appointed Nigel J. Jenvey as a Director of the Company. Consistent with the compensation of the other non-employee Directors, the Compensation Committee awarded Mr. Jenvey the following:

- An award of $50,000 in cash (50% of the total) that vests one year from the date of grant; and
- An award of 5,291 shares of restricted stock, which was calculated by dividing $50,000 by a deemed share price of $9.45. These awards of restricted stock vest one year from the date of grant and are subject to acceleration in certain events.

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

Other

All Directors are reimbursed for their expenses incurred in connection with attending meetings. We provide liability insurance for our Directors and officers. The cost of this coverage for 2020 was $167,755. We do not offer non-employee Directors travel accident insurance, life insurance, or a pension or retirement plan.

Compensation Agreements with Management

On October 23, 2013, Stephen C. Taylor entered into a new employment agreement with us (the “Employment Agreement”), pursuant to which Mr. Taylor continues his employment as our President and Chief Executive Officer. The new Employment Agreement became effective on the same date and Mr. Taylor’s previous employment agreement with us, which was set to expire on October 25, 2013, was terminated in connection therewith.

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 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. We discuss the definitions of "Change of Control" and "Good Reason" below, along with Mr. Taylor's severance benefits in connection with these events.

The term of the Employment Agreement is for three years but the agreement contains an “evergreen” feature whereby the agreement is automatically extended on a monthly basis on the last day of each month so that the term of the agreement will always be three years unless written notice of nonrenewal is given by the Company. If a notice of nonrenewal is given, the term of employment then ends three years from the date of that written notice of nonrenewal unless terminated earlier as described below. The Employment Agreement provides for Mr. Taylor to receive a base salary, potential cash bonus, equity compensation, and certain other benefits, which are summarized below.

Base Salary. Mr. Taylor is entitled to Base Salary which is reviewed annually at the beginning of the year by, and may be increased at the discretion of, the Compensation Committee of the Board of Directors of the Company (the “Compensation Committee”).

Bonus. Mr. Taylor will continue to be eligible for an annual cash bonus under the Company’s current Annual Incentive Bonus Plan. Mr. Taylor’s annual bonus opportunity payable upon achievement of “target” levels shall be at least ninety percent (90%) of Base Salary for 2013 and at least one hundred percent (100%) thereafter. The performance metrics, weighting and thresholds for each annual bonus opportunity will be determined by the Company’s Board of Directors or Compensation Committee in good faith following consultation with Mr. Taylor.

Annual Equity Compensation. Mr. Taylor is eligible for annual grants of equity-based incentive awards under the Company’s equity compensation plans. While the agreement provides an annual equity award grant to Mr. Taylor with an aggregate minimum value equal to 175% of his Base Salary, subject to one-year vesting terms, Mr. Taylor has waived the 175% and one-year vesting requirement for the past four years in order to enable the Compensation Committee to make discretionary and performance based awards with a three-year vesting term (subject to customary acceleration) in keeping with current public company pay practices.

Benefits. The Company will provide Mr. Taylor such retirement, and other benefits as are customarily provided to similarly situated executives of the Company, including paid vacation, coverage under the Company’s medical, life, disability and other insurance plans, and reimbursement for all reasonable business expenses in accordance with the Company’s expense reimbursement policy.

Termination. The Company or Mr. Taylor may terminate the agreement prior to the expiration of its Term at any time upon written notice.

Severance upon Early Termination. Mr. Taylor will be entitled to the following severance benefits during the first ten years of his employment:

(A) If (i) the Company terminates Mr. Taylor's agreement without Cause (ii) Mr. Taylor terminates the agreement for Good Reason or due to a Change of Control event (as defined below) followed by the Company or its successor terminating Mr.

Taylor's agreement without cause or Mr. Taylor terminating the agreement for Good Reason or (iii) Mr. Taylor's employment is terminated due to death or disability, then he will receive (a) a lump sum payment equal to 300% of Base Salary and Annual Bonus; (b) vesting of all unvested equity awards or other long-term incentive compensation; (c) continuation of health insurance benefits and payment of any life insurance premiums for a period of 36 months after termination; and (d) receipt of any other vested benefits which had not yet been paid prior to the date of termination.

(B) If Mr. Taylor's employment is terminated for Cause or he voluntarily resigns, then he will be entitled to any unpaid compensation earned through the date of termination and receipt of any other vested benefits which had not yet been paid prior to the date of termination.

(C) If Mr. Taylor retires in compliance with the Company's retirement policy, then he will be entitled to (i) any unpaid compensation earned through the date of retirement; (ii) vesting of all unvested equity awards or other long-term incentive compensation; and (iii) receipt of any other vested benefits which had not yet been paid prior to the date of termination.

After the tenth anniversary date of Mr. Taylor's employment agreement, in the event the Company delivers to Mr. Taylor a Notice of Nonrenewal and:

(A) his employment is automatically terminated upon the expiration of the remaining three year term, Mr. Taylor shall be entitled to (i) any unpaid compensation earned through the date of retirement; (ii) vesting of all unvested equity awards or other long-term incentive compensation; and (iii) receipt of any other vested benefits which had not yet been paid prior to the date of; or

(B) his employment is terminated prior to the expiration of the remaining three year term, unless said termination is due to Cause, voluntary resignation or retirement, then Mr. Taylor shall be entitled to (i) lump sum payment of his Base Salary at the time of termination for the remainder of the three year term of the agreement; (ii) a lump sum cash payment equal to 100% of the Annual Bonus for each full year (if any) remaining in the three year term, plus a pro rata portion of such Annual Bonus for any partial remaining year in the three year term; (iii) vesting of all unvested equity awards or other long-term incentive compensation; (iv) continuation of health insurance benefits and payment of any life insurance premiums for the remainder of the three year term of the agreement; and (v) receipt of any other vested benefits which had not yet been paid prior to the date of termination.

Under the Employment Agreement, a "Change of Control" event includes (i) the acquisition by a person, entity or group of related persons or entities of more than 30% of the total voting power in the Company (excluding sales to underwriters in a public offering); (ii) consummation of the sale of 50% or more of the Company's assets; (iii) consummation of a merger or consolidation of the Company with or into an entity unless the voting securities of the Company immediately prior to the merger or consolidation continue to represent more the 70% of the voting power of the surviving entity after the merger or consolidation; and (iv) replacement of at least a majority of the incumbent members of the Company's Board of Directors, excluding Directors whose election to the Board was approved by at least a majority of the then incumbent Directors, subject to further limited exceptions as set forth in the "Change of Control" definition in Employment Agreement.

Under the Employment Agreement, a "Good Reason" event includes (i) a material diminution of Mr. Taylor's duties, control, authority or status or position or a requirement that the Executive report to a corporate officer or employee instead of reporting directly to the Board of Directors; (ii) a material reduction in Mr. Taylor's compensation; (iii) a material breach by the Company of the Employment Agreement; or (iv) a relocation of more than 50 miles of Mr. Taylor's principal office with the Company or its successor. And in connection with a termination due to Change of Control, the following provisions also constitute “Good Reason” events: (i) a material diminution of Mr. Taylor's duties, control, authority or status or position or a requirement that Mr. Taylor report to a corporate officer or employee instead of reporting directly to the Company's or successor’s Board of Directors depending on its composition after the change in control; (ii) the failure of the Company or successor to continue in effect any plan in which Mr. Taylor participates immediately prior to the Change in Control which is material to the Executive’s total compensation, unless an equitable arrangement has been made with respect to any such plan on a basis not less favorable, both in terms of the amount or timing of payment of benefits provided; and (iii) a material breach by the Company or its successor of the Employment Agreement or any other material agreement between Mr. Taylor and the Company or its successor.

Non-Competition and Non-Solicitation. In connection with the payment of the severance benefits described above, for a period of two years following Mr. Taylor’s separation from the Company, he may not compete with the Company in any geographic area within a 100 mile radius of a Company owned or leased facility which is Company staffed and actively engaging in business on behalf of the Company.

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

Limitation on Directors' and Officers' Liability

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

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

Our Articles of Incorporation and bylaws provide certain indemnification privileges to our Directors, employees, agents and officers against liabilities incurred in legal proceedings. Also, our Directors, employees, agents or officers who are successful, on the merits or otherwise, in defense of any proceeding to which he or she was a party, are entitled to receive indemnification against expenses, including attorneys' fees, incurred in connection with the proceeding.

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

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

Procedures for Reviewing Certain Transactions

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

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

Approval Procedures

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

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

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

Ratification Procedures

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

We did not have any related party transactions in 2020 with our officers or Directors.

PRINCIPAL SHAREHOLDERS AND SECURITY OWNERSHIP OF MANAGEMENT

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

The following table indicates the beneficial ownership of our Common Stock as of April 25, 2021 by: (1) each of our Directors and nominees for election; (2) our Chief Executive Officer, principal accounting officer and our other named executive officers (as defined in Item 402(a) (3) of Regulation S-K) (together as a group, the "*Named Executive Officers* "); and (3) all of our current Directors, nominees and executive officers as a group, based on our records and data supplied by each of the current Directors, nominees and executive officers.

Schedule of Beneficial Ownership

Name of Beneficial Owner and Position	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Directors & Nominees Who Are Not Named Executive Officers		
John W. Chisholm Current Director	28,974	*
Nigel J. Jenvey Director Nominee	5,291	*
David L. Bradshaw Director Nominee	32,044	*
Leslie A. Beyer Current Director	6,936	*
Named Executive Officers		
Stephen C. Taylor Chief Executive Officer and Current Director	681,118(2)	5.00%
James R. Hazlett Vice President - Technical Services	106,791(3)	*
G. Larry Lawrence Interim Vice President and Chief Financial Officer	64,259(4)	*
All Directors (and nominees) and executive officers as a group (7 persons)	925,413(5)	6.79%

* Less than one percent.

(1) The number of shares listed includes all shares of common stock owned or indirectly owned by, which vest within 60 days of April 25, 2021, under outstanding restricted stock units. Beneficial ownership is calculated in accordance with the rules of the Securities and Exchange Commission. Unless otherwise indicated, all shares of common stock are held

directly with sole voting and investment powers. As of April 25, 2021, none of the shares of common stock owned by our officers and Directors had been pledged as collateral to secure repayment of loans.

(2) Includes (i) 113,315 shares of common stock held indirectly by a "rabbi trust" the receipt of which has been deferred by Mr. Taylor pursuant to the Company's Nonqualified Deferred Compensation Plan and (ii) 3,138 shares of common stock which vest within 60 days of April 25, 2021. Does not include 17,248 shares of common stock which may be issued upon the vesting of restricted stock units.

(3) Includes 19,000 shares of common stock held indirectly by a "rabbi trust" the receipt of which has been deferred by Mr. Hazlett pursuant to the Company's Nonqualified Deferred Compensation Plan.

(4) Includes 10,000 shares of common stock held indirectly by a "rabbi trust" the receipt of which has been deferred by Mr. Lawrence pursuant to the Company's Nonqualified Deferred Compensation Plan.

(5) Does not include 17,248 shares of common stock which may be issued upon the vesting of restricted stock units.

The following table sets forth information as of April 25, 2021 regarding the beneficial owners of more than five percent of the outstanding shares of our Common Stock. To our knowledge, there are no beneficial owners of more than five percent of the outstanding shares of our Common Stock as of April 25, 2021 other than those set forth below.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Dimensional Fund Advisors LP Palisades West, Building One, 6300 Bee Cave Road Austin, Texas 78746	1,022,687(1)	7.51%
Mill Road Capital III, LP 382 Greenwich Avenue, Suite One Greenwich, CT 06830	839,445(2)	6.17%
Franklin Mutual Advisors, LLC 101 John F. Kennedy Parkway Short Hills, New Jersey 07078	861,483(3)	6.33%
FMR LLC 245 Summer Street Boston, Massachusetts 02210	1,076,645(4)	7.91%

(1) As reported in Amendment No. 9 to Schedule 13G filed with the Securities and Exchange Commission in February 12, 2021. According to the filing, Dimensional Fund Advisors holds voting and/or investment power over the shares, but economic ownership is beneficially held by four investment companies. Dimensional Fund Advisors has sole dispositive power over all and sole voting power over 979,721 of the shares reported in the table above.

(2) As reported in Schedule 13D filed with the Securities and Exchange Commission on January 4, 2021.

(3) As reported in Amendment No. 3 to Schedule 13G filed with the Securities and Exchange Commission on February 4, 2021. According to the filing, Franklin Advisory Services, LLC is an indirect wholly owned subsidiary of Franklin Resources, Inc., and it holds investment and voting power over the securities; however, economic ownership is held by one or more open-end investment companies or other managed accounts that are investment management clients of Franklin Advisory Services, LLC or affiliated companies.

(4) As reported in Amendment No. 1 to Schedule 13G filed with the Securities and Exchange Commission on February 8, 2021.

Delinquent Section 16(a) Reports

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our Directors, officers and persons who beneficially own more than 10% of our Common Stock to file certain reports of beneficial ownership with the Securities and Exchange Commission. These reports show the Directors', officers' and greater than 10% shareholders' ownership and the changes in ownership of our common stock and other equity securities. The SEC regulations also require that a copy of all such Section 16(a) forms filed must be furnished to us by the person or entity filing the report. To the Company's knowledge, during the fiscal year ended December 31, 2020, all reports required to be filed pursuant to Section 16(a) were filed on a timely basis, except the reports listed below.

- Stephen C. Taylor, our President and Chief Executive Officer, filed one day late a Form 4 on February 14, 2020, which included three related transactions in connection with the exempt vesting of restricted stock units and related exempt payment of tax liability by withholding shares incident to the vesting of the restricted stock units.
- Charles Curtis, our Director who retired in 2020, filed a late report on Form 4 on June 22, 2020, regarding the exempt vesting of restricted stock units.

PROPOSAL 2 - CONSIDERATION OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

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

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

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

"RESOLVED, that the shareholders approve the compensation of the Company's named executive officers, as disclosed in the compensation section, the compensation tables, and the related disclosure contained in the proxy statement set forth under the caption "Executive Compensation" of this proxy statement."

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

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

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

REPORT OF THE AUDIT COMMITTEE

The primary function of the Audit Committee of Natural Gas Services Group, Inc. is oversight of the Company's financial reporting process, public financial reports, internal accounting and financial controls, and the independent audit of the annual consolidated financial statements. The Committee acts under a charter, which can be found on the Company's website at www.ngsgi.com. The adequacy of the charter is reviewed at least annually. The Chairman and all members of the Audit Committee are independent directors within the meaning of Section 303A of the New York Stock Exchange Listed Company Manual.

The Committee met nine (9) times in 2020. In these meetings, as discussed in more detail below, it had extensive reports and discussions with the independent auditors, internal accounting professionals, and members of management.

In performing its oversight function, the Committee reviewed and discussed the consolidated financial statements with management and Moss Adams LLP ("Moss Adams"), the Company's independent auditors. Management indicated, and Moss Adams' audit opinion stated, that the Company's consolidated financial statements were fairly stated in accordance with generally accepted accounting principles. The Committee discussed significant accounting policies applied by the Company in its financial statements, as well as alternative treatments. It also discussed with Moss Adams matters covered by Public Company Accounting Oversight Board ("PCAOB") standards, including PCAOB AS 1301 Communication with Audit Committees. In addition, the Committee reviewed and discussed management's report on internal control over financial reporting, which confirmed the effectiveness of the Company's internal control over financial reporting.

The Audit Committee also discussed with Moss Adams its independence from the Company and management, including the communications Moss Adams is required to provide under applicable PCAOB rules. The Committee considered any non-audit services provided or proposed by Moss Adams to the Company, and concluded that the auditors' independence has been maintained. In the year ended December 31, 2020 and up until the filing of this Proxy statement, Moss Adams had not provided any material non-audit services to the Company.

The Audit Committee discussed with the Company's internal accounting professionals and Moss Adams the overall scope and plans for the audit and met periodically with Moss Adams, both with and without management present. Discussions included the results of their reviews and examination, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

The Audit Committee met with the Company's management to discuss the comprehensive risk management and compliance processes of the Company, and reviewed other topics of interest.

Based on the reviews and discussions referred to above, in reliance on management and the opinion Moss Adams included in its report on the financial statements, and subject to the limitations of its role described below, the Audit Committee recommended to the Board, and the Board approved, the inclusion of the audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, for filing with the U.S. Securities and Exchange Commission.

In carrying out its responsibilities, the Audit Committee looks to management and the independent auditors. Management is responsible for the preparation and fair presentation of the Corporation's financial statements and for maintaining effective internal control. Management is also responsible for assessing and maintaining the effectiveness of internal control over the financial reporting process in compliance with Sarbanes-Oxley Section 404 requirements. The independent auditors are responsible for auditing the Company's annual financial statements, and expressing an opinion as to whether the statements are fairly stated, in all material respects, in conformity with generally accepted accounting principles. The independent auditors perform their responsibilities in accordance with the standards of the PCAOB. Audit Committee members are not professionally engaged in the practice of accounting or auditing, and are not experts under the Securities Act of 1933 in either of those fields or in auditor independence.

In 2020, the Audit Committee solicited proposals from independent registered public accounting firms and engaged Moss Adams as the Company's new independent auditor. Shareholders approved the appointment of Moss Adams as the Company's independent auditors at the annual meeting of the Company held on August 13, 2020. The Audit Committee appointed Moss Adams to audit the Company's financial statements for 2021, subject to shareholder ratification of the appointment.

The Committee, along with the other members of the Board, management, and the Company's internal accounting professionals annually evaluates Moss Adams qualifications, performance, and independence, including the performance of the lead audit partner, in deciding whether or not to retain Moss Adams. That evaluation includes consideration of: (1) Moss

Adams' quality control; (2) All relationships between Moss Adams and the Company covered by the PCAOB; (3) Moss Adams' expertise and experience in the oil and gas industry with specific attention to the oilfield services and compression sectors; and (4) The quality of Moss Adams' audit plans.

The Committee believes that Moss Adams' role as the Company's independent registered public accounting firm is appropriate given their experience and expertise with middle market public companies in the oilfield service industry and their knowledge of the Company's business, as well as the effectiveness of their audit plans. Based on the Audit Committee's evaluation of Moss Adams' qualifications, performance, and independence, as well as regular meetings with the lead partner, the Audit Committee believes that the continued retention of Moss Adams as the Company's independent registered public accounting firm is in the best interest of the Company and its stockholders.

Respectfully submitted by the Audit Committee,

David L. Bradshaw, Chairman
Leslie A. Beyer
Nigel J. Jenvey

PROPOSAL 3 - RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We are asking the shareholders to ratify the Audit Committee's appointment of Moss Adams LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2021. Moss Adams LLP is a registered public accounting firm with the Public Company Accounting Oversight Board ("PCAOB"), as required by the Sarbanes-Oxley Act of 2002 and the rules of the PCAOB. Shareholder ratification of the appointment is not required under the laws of the State of Colorado, but the Board believes it is important to allow shareholders to vote on the proposal. In the event the shareholders fail to ratify the appointment, the Audit Committee will reconsider this appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in our best interests and that of our shareholders.

Moss Adams LLP representatives are expected to attend the 2021 Annual Meeting in person or via video conference. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate shareholder questions.

The Board of Directors recommends that the shareholders vote "FOR" the ratification of the appointment of Moss Adams LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2021.

Principal Accountant Fees

Our principal accountant for the fiscal year ended December 31, 2020, was Moss Adams; and for the fiscal years ended December 31, 2019 and 2018 was our former Principal Accountant, BDO USA, LLP.

Audit Fees

The aggregate fees billed for professional services rendered by Moss Adams for the audit of our consolidated financial statements for the years ended December 31, 2020, and the review of the financial statements on Forms 10-Q for the quarters in such years were approximately $257,575.

Audit Related Fees

During the years ended December 31, 2020 and 2019, there were no audit related fees.

Tax Fees

We were not billed by nor was there any tax work performed by Moss Adams or BDO USA, LLP during the years ended December 31, 2020 and 2019.

All Other Fees

No other fees were billed by Moss Adams or BDO USA, LLP, during our fiscal years ended December 31, 2020 and 2019, other than as described above.

Audit Committee Pre-Approval Policies and Procedures

As of the date of this proxy statement, our Audit Committee has not established general pre-approval policies and as of December 31, 2020, our Audit Committee had not established pre-approval policies and procedures for the engagement of our principal accountant to render audit or non-audit services. However, in accordance with Section 10A(i) of the Exchange Act, our Audit Committee, as a whole, approves the engagement of our principal accountant prior to the accountant rendering audit or non-audit services.

Certain rules of the Securities and Exchange Commission provide that an auditor is not independent of an audit client if the services it provides to the client are not appropriately approved, subject, however, to a *de minimis* exception contained in the rules. The Audit Committee pre-approved all services provided by Moss Adams in 2020 and the *de minimis* exception was not used.

SHAREHOLDER PROPOSALS

Under SEC Rule 14a-8, if a shareholder wants us to include a proposal in our proxy statement and form of proxy for presentation at our 20222 Annual Meeting of Shareholders, the proposal must be received by us at our principal executive offices at 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705 by January 1, 2022 unless the date of our 2022 Annual Meeting of Shareholders is more than 30 days from the anniversary date of our 2021 Annual Meeting of Shareholders, in which case the deadline is a reasonable time before we print and mail our proxy materials for the 2021 Annual Meeting of Shareholders. The proposal should be sent to the attention of the Corporate Secretary of Natural Gas Services Group, Inc. In order to curtail controversy as to the date on which a proposal was received by us, it is suggested that proponents submit their proposals by certified mail-return receipt requested. Such proposals must also meet the other requirements established by the SEC for stockholder proposals.

In addition, pursuant to our Bylaws, a stockholder who intends to nominate a candidate for election to the Board or to propose other business for consideration at the 2022 Annual Meeting of Stockholders must deliver to the Company notice and certain information concerning themselves and their shareholder proposal or director nomination not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting (the “annual meeting anniversary date”); provided, however, that, if the annual meeting is scheduled to be held on a date more than 30 days before or more than 60 days after the annual meeting anniversary date, notice must be delivered to us not later than the close of business on the later of the 120th day prior to the scheduled date of such annual meeting and not later than the latest of (i) the 90th day prior to such annual meeting, or (ii) the 10th day after public disclosure of the date of such annual meeting.

Accordingly, any notice given by or on behalf of a stockholder pursuant to these provisions of our Bylaws (and not pursuant to Rule 14a-8 of the Exchange Act) must be received no earlier than February 17, 2022, and no later than March 18, 2020 Such notice should be addressed to: Natural Gas Services Group, Inc., Corporate Secretary, at 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705.

With respect to special meetings of the shareholders, the business that may be brought at the meeting will be limited to that stated in the Company's notice of meeting. In the event we call a special meeting of shareholders for the purpose of electing one or more directors to the Board, any such shareholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified our notice of meeting, if such shareholder delivers a notice that complies with the requirements of our Bylaws to the secretary of the Company at its principal executive offices not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of: (x) the 90th day prior to such special meeting; or (y) the tenth (10th) day following the first date of public disclosure of the date of the special meeting and of the nominees proposed by the Board.

These requirements are separate from and in addition to the SEC’s requirements described in the first paragraph of this section relating to including a proposal in our proxy statements.

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Because of our relatively small size, to date we have not developed formal processes by which shareholders or other interested parties may communicate directly with Directors. Until formal procedures are developed and posted on our website (www.ngsgi.com), any communication to one or more members of our Board of Directors may be made by sending them in care of Investor Relations, Natural Gas Services Group, Inc., 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705. Shareholders should clearly note on the mailing envelope that the letter is a "Shareholder-Board Communication." All such communications will be forwarded to the intended recipients.

OTHER MATTERS

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

New York Stock Exchange Certification. We listed our common stock on the New York Stock Exchange in October 2008. The certification of our Chief Executive Officer required by the NYSE Listing Standards, Section 303A.12(a), relating to our compliance with the NYSE Corporate Governance Listing Standards, was submitted to the NYSE on July 22, 2019, in connection with our listing on the exchange. The certifications of our Chief Executive Officer and principal accounting officer required by the SEC in connection with our Annual Report on Form 10-K for the year ended December 31, 2020, were submitted to the SEC on March 30, 2021, with our Annual Report on Form 10-K.

You may obtain our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, without charge upon written request to Stephen C. Taylor, President, at Natural Gas Services Group, Inc., 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705. In addition, the exhibits to the Annual Report on Form 10-K for the fiscal year ended December 31, 2020, may be obtained by any shareholder upon written request to Mr. Taylor.

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

BY ORDER OF THE BOARD OF DIRECTORS

April 30, 2021	/s/ Stephen C. Taylor
Midland, Texas	Stephen C. Taylor Chairman of the Board, President and Chief Executive Officer

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FORM 10-K
2020 ANNUAL REPORT

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

FORM 10-K

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

For the fiscal year ended **December 31, 2020**
or
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from________________________to__________________________
Commission file number: 1-31398

NATURAL GAS SERVICES GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Colorado	75-2811855
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
404 Veterans Airpark Lane, Suite 300, Midland, Texas	79705
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(432) 262-2700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $.01 par value	NGS	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File to be submitted and posted pursuant to Rule 405 of Regulation S-T (§40232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ No ☐
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☒

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

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒	Smaller reporting company ☒	Emerging growth company ☐

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.☐

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2020 was approximately $82,414,178 based on the closing price of the common stock on that date on the New York Stock Exchange.

At March 26, 2021, there were 13,605,803 shares of the Registrant's common stock outstanding.

Documents incorporated by reference

Certain information called for in Items 10, 11, 12, 13 and 14 of Part III are incorporated by reference to the registrant's definitive proxy statement for the annual meeting of shareholders expected to be held on June 17, 2021.

FORM 10-K

NATURAL GAS SERVICES GROUP, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended, and information pertaining to us, our industry and the oil and natural gas industry that is based on the beliefs of our management, as well as assumptions made by and information currently available to our management. All statements, other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future financial position, growth strategy, budgets, projected costs, plans and objectives of management for future operations, are forward-looking statements. We use the words "may," "will," "expect," "anticipate," "estimate," "believe," "continue," "intend," "plan," "budget" and other similar words to identify forward-looking statements. You should read statements that contain these words carefully and should not place undue reliance on these statements because they discuss future expectations, contain projections of results of operations or of our financial condition and/or state other "forward-looking" information. We do not undertake any obligation to update or revise publicly any forward-looking statements. Although we believe our expectations reflected in these forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations or assumptions will prove to have been correct. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include, but are not limited to, the following factors and the other factors described in this Annual Report on Form 10-K under the caption "Risk Factors":

- significant economic disruptions and adverse consequences resulting from current and possible long-term effects of the COVID-19 global pandemic;
- conditions in the oil and natural gas industry, including the supply and demand for natural gas and wide fluctuations and possible prolonged depression in the prices of oil and natural gas;
- economic challenges presently faced by our customers in the oil and natural gas business that, in turn, could adversely affect our sales, rentals and collectability of our accounts receivable;
- regulation or prohibition of new well completion techniques;
- competition among the various providers of compression services and products;
- changes in safety, health and environmental regulations;
- changes in economic or political conditions in the markets in which we operate;
- failure of our customers to continue to rent equipment after expiration of the primary rental term;
- the inherent risks associated with our operations, such as equipment defects, malfunctions and natural disasters;
- our inability to comply with covenants in our debt agreements and the decreased financial flexibility associated with our debt;
- future capital requirements and availability of financing;
- fabrication and manufacturing costs;
- general economic conditions;
- acts of terrorism; and
- fluctuations in interest rates.

We believe that it is important to communicate our expectations of future performance to our investors. However, events may occur in the future that we are unable to accurately predict or that we are unable to control. When considering our forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Annual Report on Form 10-K.

Glossary of Industry Terms

"CiP" - A branded gas compressor product line designed, manufactured and packaged by the Company. The 'Cylinder in Plane' design results in a compact and vibration-free compressor unit that particularly lends itself to unconventional wellhead applications, air compression and compressed natural gas requirements.

"flare" – A tall stack equipped with burners used as a safety device at wellheads, refining facilities, gas processing plants, and chemical plants. Flares are used for the combustion and disposal of combustible gases. The gases are piped to a remote, usually elevated, location and burned in an open flame in the open air using a specially designed burner tip, auxiliary fuel, and steam or air. Combustible gases are flared most often due to emergency relief, overpressure, process upsets, startups, shutdowns, and other operational safety reasons. Natural gas that is uneconomical for sale is also flared. Often natural gas is flared as a result of the unavailability of a method for transporting such gas to markets.

"gas lift" – A production enhancement technique whereby natural gas is injected into an oil well to increase/ improve the oil production.

"oil shale" – Also referred to as tight oil, is petroleum that consists of light crude oil contained in petroleum-bearing formations of low-permeability, often shale or tight sandstone.

"reciprocating compressors" – A reciprocating compressor is a type of compressor which compresses vapor by using a piston in a cylinder and a back-and-forth motion.

"screw compressors" – A type of compressor used in low-pressure and vapor compression applications where two intermesh rotors create pockets of continuously decreasing volume, in which the gas is compressed and its pressure is increased.

PART I

ITEM 1. BUSINESS

Unless the context otherwise requires, references in this Annual Report on Form 10-K to “Natural Gas Services Group,” the “Company”, "NGS", “we,” “us,” “our” or “ours” refer to Natural Gas Services Group, Inc. Certain specialized terms used in describing our natural gas compressor business are defined in "Glossary of Industry Terms" on page i.

Smaller Reporting Company

We are a “smaller reporting company” as defined by the SEC. As such, we are eligible to comply with the scaled disclosure requirements in several Regulation S-K and Regulation S-X items. Our disclosures in this Annual Report reflect these scaled requirements.

The Company

Natural Gas Services Group, Inc. (the "Company", “NGS”, "Natural Gas Services Group", "we" or "our") (a Colorado corporation), is a leading provider of natural gas compression equipment and services to the energy industry. The Company manufactures, fabricates, rents, sells and maintains natural gas compressors and flare systems for oil and natural gas production and plant facilities. NGS is headquartered in Midland, Texas, with fabrication facilities located in Tulsa, Oklahoma and Midland, Texas, and service facilities located in major oil and natural gas producing basins in the U.S.

The Company has shifted its focus over the last several years to medium to large horsepower applications that apply to natural gas associated with oil-weighted production. Our primary customers are exploration and production companies that utilize our compressor units for artificial lift applications, i.e., production enhancement enabled with high-pressure gas compression equipment, on unconventional oil wells on single and multi-well pads. In addition, our customer base includes oil and natural gas exploration and production ("E&P") companies that are focused on natural gas-weighted production (with typically smaller horsepower applications) as well as midstream companies. The Company's largest rental area is the Permian Basin (approximately 45.0% of rental revenues in 2020), with the large majority of its remaining rental revenue being generated in other oil and natural gas producing regions and plays in Texas, New Mexico and Oklahoma, including the San Juan Basin, the Texas Panhandle/western Oklahoma, the Barnett Shale, and central Oklahoma. Other regions and plays in which we provide service include the Utica and Marcellus Shales, Michigan and the DJ Basin.

Our rental contracts typically provide for initial terms of six to 24 months, with our larger horsepower units having contract terms of up to 60 months. As of December 31, 2020, our rental compression fleet was comprised of 2,224 natural gas compression units with 438,524 horsepower. Of this total, we had 1,274 natural gas compression units in service with 287,646 horsepower, resulting in horsepower utilization of 65.6%. We added 42 units with approximately 23,265 horsepower to our fleet during 2020. 24 of those units were 400 horsepower or larger (including 10 at 1,380 horsepower each), representing approximately 89% of the horsepower added.

Our revenue decreased 13.2% to $68.1 million from $78.4 million for the year ended December 31, 2020 compared to the year ended December 31, 2019. This decline was largely the result of our sales revenue decreasing 71.4% to $5.7 million in 2020 from $19.8 million in 2019. For the year ended December 31, 2020 the Company reported net income of $1.8 million as compared to a net loss of $13.9 million for the year ended December 31, 2019. In addition, the Company's adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") decreased 5.5% to $22.7 million in 2020 from $24.0 million in 2019. See "Item 6, Selected Financial Data, Non-GAAP Financial Measures" for a reconciliation of adjusted EBITDA to its closest GAAP financial measure, net (loss) income.

At December 31, 2020, current assets were $72.7 million, which included $28.9 million of cash and cash equivalents. Current liabilities were $10.9 million at year end 2020, which included the full amount outstanding on our line of credit of $417,000. Our stockholders' equity as of December 31, 2020 was $251.5 million.

Please see "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information.

Our Operating Units

We identify our operating units based upon major revenue sources as Rental, Sales, Service and Maintenance and Corporate.

Rental. Our rental compression units provide small, medium and large horsepower applications for unconventional oil and natural gas production. Our rental contracts typically provide for initial terms of six to 24 months, with our larger horsepower units having contract terms of up to 60 months. By outsourcing their compression needs, we believe our customers are able to increase their revenues by producing higher volumes of oil and natural gas due to greater equipment run time. Outsourcing allows our customers to reduce their compressor downtime, operating and maintenance costs, and capital investments, and more efficiently meet their changing compression needs. We maintain and service all of the compression equipment we rent to our customers.

The size, type and geographic diversity of our rental fleet enables us to provide our customers with a range of compression units that can serve a wide variety of applications, and to select the correct equipment for the job, rather than the customer trying to fit the job to its own equipment. We base our gas compressor rental rates on several factors, including the cost and size of the equipment, the type and complexity of service desired by the customer, the length of contract and the inclusion of any other services desired, such as installation, transportation and daily operation.

As of December 31, 2020, we had 2,224 natural gas compressors in our rental fleet totaling 438,524 horsepower. Of this total, we had 1,274 natural gas compressors totaling 287,646 horsepower rented to 80 customers. The utilization rate of our rental fleet as of December 31, 2020 was 57.3%, while our horsepower utilization for the same period was 65.6%.

Engineered Equipment Sales. This operating unit includes the following components:

- ***Compressor fabrication.*** Fabrication involves the design, fabrication and assembly of compressor components manufactured by us or other vendors into compressor units that are ready for rental or sale. In addition to fabricating compressors for our rental fleet, we engineer and fabricate custom-made natural gas compressors for sale to customers to meet their specifications based on well pressure, production characteristics and the particular applications for which compression is sought. Fabricated compressors comprised 39.1% of our sales revenue during 2020.

- ***Parts sales and compressor rebuilds.*** To provide customer support for our compressor and flare sales businesses, we stock varying levels of replacement parts at our Midland, Texas facility and at field service locations. We also provide an exchange and rebuild program for small horsepower screw compressors and maintain an inventory of new and used compressors to facilitate this part of our business. Parts sales and compressor rebuilds comprised 52.3% of our sales revenue during 2020.

- ***Flare fabrication.*** We design, fabricate, sell, install and service flare stacks and related ignition and control devices for the onshore and offshore incineration of gas compounds such as hydrogen sulfide, carbon dioxide, natural gas and liquefied petroleum gases. Applications for this equipment are often environmentally and regulatory driven.

- ***Compressor manufacturing.*** We design and manufacture our own proprietary line of reciprocating natural gas compressor frames, cylinders and parts known as our "CiP", or Cylinder-in-Plane, product line. We use the finished components to fabricate compressor units for our rental fleet or for sale to customers. We also sell finished components to other fabricators.

Service and Maintenance. We service and maintain compressors owned by our customers on an "as needed" and contract basis. Natural gas compressors require routine maintenance and periodic refurbishing to prolong their useful life. Routine maintenance includes physical and visual inspections and other parametric checks that indicate a change in the condition of the compressors. We perform engine and compressor overhauls on a condition-based interval or a time-based schedule or at the customer's request. Based on our past experience, these maintenance procedures maximize component life and unit availability and minimize downtime.

Business Strategy

Our long-term intentions to grow our revenue and profitability are based on the following business strategies:

- ***Expand rental fleet***. We intend to prudently increase the size of our medium and large horsepower rental fleet by fabricating compressor units in numbers that correspond to pre-contracted agreements with our customers and to market share gains we may experience. We believe our future growth will be primarily driven through our placement of larger horsepower, centralized wellhead natural gas compressors for unconventional oil production, with select fabrication of medium horsepower compressors to meet customer demand beyond our inventory.

- ***Geographic expansion.*** We will continue to consolidate our operations in existing areas, as well as pursue focused expansion into new geographic regions as opportunities are identified. Company's largest rental area is the Permian Basin (approximately 45.0% of rental revenues in 2020), where we have continued to gain market share and believe we have the most expansion opportunities going forward. The large majority of the Company's remaining rental revenue is being generated in other oil and natural gas producing regions and plays in Texas, New Mexico and Oklahoma, including the San Juan Basin, the Texas Panhandle / western Oklahoma, the Barnett Shale, and central Oklahoma. Other regions and plays in which we provide service include the Utica and Marcellus Shales, Michigan and the DJ Basin.

- ***Selectively pursue acquisitions.*** We will continue to evaluate potential acquisitions, joint ventures and other opportunities that could enhance our current market position, but only those that provide compelling returns to the Company.

All of the above strategies are subject to revisions and adjustments as a result of several factors discussed in Item 1A, Risk Factors.

Competitive Strengths

We believe our competitive strengths include:

- ***Superior customer service.*** Our availability to provide a broad range of compressors has enabled us to effectively meet the evolving needs of our customers. We believe this ability, coupled with our personalized services and in-depth knowledge of our customers' operating needs and growth plans, have allowed us to enhance our relationships with existing customers as well as attract new customers. The size, type and geographic diversity of our rental fleet enable us to provide customers with a range of compression units that can serve a wide variety of applications. We are able to select the correct equipment for the job, rather than the customer trying to fit its application to our equipment.
- ***Diversified product line.*** Our compressors are available as low pressure rotary screw and higher pressure reciprocating packages. They are designed to meet a number of applications, including compression assisted gas lift on oil wells, wellhead compression on natural gas wells, natural gas gathering and transmission, and others. In addition, our compressors can be built to handle a variety of gas mixtures, including air, nitrogen, carbon dioxide, hydrogen sulfide and hydrocarbon gases. A diversified compression product line helps us compete by being able to satisfy widely varying pressure, volume and production conditions that customers encounter.
- ***Purpose-built rental compressors.*** Our rental compressor packages have been designed and built to address the primary requirements of our customers in the producing regions in which we operate. Our units are purpose-built but standardized, as the units are compact in design and are easy, quick and inexpensive to move, install and start-up. Our control systems are technically advanced, as these systems allow the operator to monitor as well as start and stop the majority of our units remotely and/or in accordance with well conditions. We also believe our rental fleet is one of the environmentally efficient in the industry.
- ***Experienced management team.*** On average, our executive and operating team members have over 25 years of oilfield services and other energy industry experience. We believe our management team has successfully demonstrated its ability to grow our business during times of expansion and to manage through downturns.
- ***Broad geographic presence.*** We presently provide our products and services to a customer base of oil and natural gas exploration and production companies operating in Texas, New Mexico, Oklahoma, Pennsylvania, West Virginia, Ohio, Michigan, Colorado and Wyoming. Our footprint allows us to service many of the largest oil and natural gas producing regions in the United States. We believe that operating in diverse geographic regions allows us better utilization of our compressors, minimal incremental expenses, operating synergies, volume-based purchasing, leveraged inventories and cross-trained personnel.
- ***Long-standing customer relationships.*** We have developed long-standing relationships providing compression equipment to many major and independent oil and natural gas companies. Our customers generally continue to rent our compressors after the expiration of the initial terms of our rental agreements, which we believe reflects their satisfaction with the reliability and performance of our services and products.

Overview and Outlook

The market for compression equipment and services is dependent on the condition of the oil and natural gas industry, including the capital expenditure budgets of domestic oil and gas companies. The level of activity and capital expenditures has generally been dependent upon the prevailing view of future gas and oil prices, which are influenced by numerous supply and demand factors, including availability and cost of capital, well productivity and development costs, global and domestic economic conditions, environmental regulations, policies of OPEC countries and Russia, and other factors. In addition, capital expenditure budgets of energy companies have become significantly more constrained over the last several year due to the deterioration of energy equity markets and strong demands from institutional investors that companies keep capital spending within operating cash flow and return capital through dividends and share repurchases. Oil and natural gas prices and the level of development and production activity have historically been characterized by significant volatility.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus known as COVID-19 due to the risks it imposes on the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. During this time, the market began to experience a decline in oil prices in response to oil demand concerns due to the global economic impacts of COVID-19. These developments have led to significant weakness in oil prices and ensuing reductions of exploration and production company capital and operating budgets.

With the significant decline in oil prices as well as the general economic decline caused by the impacts of COVID-19, we expect utilization to continue to decline among our smaller horsepower and medium horsepower units during the remainder of 2021. In terms of sales, we expect minimal compressor sales for the year due to much lower capital expenditure budgets throughout the industry, including those of our major customers. Finally, we continue to experience pricing pressure from our customers and competitors until industry and economic conditions improve. We are currently experiencing no issues with potential workforce and supply chain disruptions. Our relationship with our major customer continues to be strong, and they have continued to pay our invoices in a timely, consistent manner. Nevertheless, if any of these circumstances change, our business could be adversely affected.

While management anticipates that the industry and economic impact of the pandemic will have a negative effect on its results of operations in 2021 and perhaps beyond, the degree to which these factors will impact our business remains uncertain. Please read Item 1A, Risk Factors, in this report.

Major Customers

Sales and rental income to Occidental Permian, LTD. ("Oxy") for the years ended December 31, 2020 and 2019 amounted to 30% and 36% of our revenue, respectively. No other single customer accounted for more than 10% of our revenues in 2020 or 2019.

Oxy amounted to 35% of our accounts receivable as of December 31, 2020 and 35% of our accounts receivable as of December 31, 2019. No other customers amounted to more than 10% of our accounts receivable as of December 31, 2020 and 2019. The loss of this key customer would have a material adverse effect on our business, financial condition, results of operations and cash flows, depending upon the demand for our compressors at the time of such loss and our ability to attract new customers.

Sales and Marketing

Our sales force pursues the rental and sales market for compressors and flare equipment and other services in their respective territories. Additionally, our personnel coordinate with each other to develop relationships with customers who operate in multiple regions. Our sales and marketing strategy is focused on communication with current customers and potential customers through frequent direct contact, technical assistance, print literature, direct mail and referrals. Our sales and marketing personnel coordinate with our operations personnel in order to promptly respond to and address customer needs. Our overall sales and marketing efforts concentrate on demonstrating our commitment to enhancing the customer's cash flow through enhanced product design, fabrication, manufacturing, installation, operations, customer service and support.

Competition

We have a number of competitors in the natural gas compression segment, some of which have greater financial resources. We believe that we compete effectively on the basis of price, customer service, including the ability to place personnel in remote locations, flexibility in meeting customer needs, and quality and reliability of our compressors and related services.

Compressor industry participants can achieve significant advantages through increased size and geographic breadth. As the number of rental compressors in our rental fleet increases, the number of sales, support, and maintenance personnel required and the minimum level of inventory do not increase proportionately.

Backlog

As of December 31, 2020, we had a sales backlog of approximately $1.4 million compared to $2.2 million as of December 31, 2019. Sales backlog consists of firm customer orders for which a purchase or work order has been received, satisfactory credit or a financing arrangement exists, and delivery is scheduled. In addition, the major components of our compressors are acquired from suppliers through periodic purchase orders that currently require two to three months of lead time prior to delivery of the order.

Employees

As of December 31, 2020, we had 229 total employees, none of which are represented by a labor union. We believe we have good relations with our employees.

Liability and Other Insurance Coverage

Our equipment and services are provided to customers who are subject to hazards inherent in the oil and natural gas industry, such as explosions, fires, and oil spills. We maintain liability insurance that we believe is customary in the industry and which includes environmental cleanup, but excludes product warranty insurance because the majority of components on our compressor unit are covered by the manufacturers. We also maintain insurance with respect to our facilities. Based on our historical experience, we believe that our insurance coverage is adequate. However, there is a risk that our insurance may not be sufficient to cover any particular loss or that insurance may not cover all losses. In addition, insurance rates have in the past been subject to wide fluctuation, and changes in coverage could result in less coverage, increases in cost or higher deductibles and retentions.

Government Regulation

All of our operations and facilities are subject to numerous federal, state, foreign and local laws, rules and regulations related to various aspects of our business, including containment and disposal of hazardous materials, oilfield waste, and other waste materials.

To date, we have not been required to expend significant resources in order to satisfy applicable environmental laws and regulations. We do not anticipate any material capital expenditures for environmental control facilities or extraordinary expenditures to comply with environmental rules and regulations in the foreseeable future. However, compliance costs under existing laws or under any new requirements could become material and we could incur liabilities for noncompliance.

Our business is generally affected by political developments and by federal, state, foreign and local laws and regulations, which relate to the oil and natural gas industry. The adoption of laws and regulations affecting the oil and natural gas industry for economic, environmental and other policy reasons could increase our costs and could have an adverse effect on our operations. The state and federal environmental laws and regulations that currently apply to our operations could become more stringent in the future.

We have utilized operating and disposal practices that were or are currently standard in the industry. However, materials such as solvents, thinner, waste paint, waste oil, wash down waters and sandblast material may have been disposed of or released in or under properties currently or formerly owned or operated by us or our predecessors. In addition, some of these properties have been operated by third parties over whom we have no control either as to such entities' treatment of materials or the manner in which such materials may have been disposed of or released.

The federal Comprehensive Environmental Response Compensation and Liability Act of 1980, commonly known as CERCLA, and comparable state statutes impose strict liability on:

- owners and operators of sites, and
- persons who disposed of or arranged for the disposal of "hazardous substances" found at sites.

The modification of existing laws or regulations or the adoption of new laws or regulations that result in the curtailment of exploratory or developmental drilling for oil and gas could materially and adversely affect our operations by discouraging our customers from drilling for hydrocarbons, disrupting revenue through permitting or similar delays. For example, on January 20, 2021, the Acting Secretary for the Department of the Interior signed an order effectively suspending new fossil fuel leasing and permitting on federal lands, including in the US Gulf of Mexico, for 60 days. Then on January 27, 2021, President Biden issued an executive order indefinitely suspending new oil and natural gas leases on public lands or in offshore waters pending completion of a comprehensive review and reconsideration of federal oil and gas permitting and leasing practices. Demand for our compression products and services could be diminished in connection with these initiatives. Further, to the extent that the review results in the development of additional restrictions on exploration and drilling, limitations on the availability of leases, or restrictions on the ability to obtain required permits, it could have a material adverse impact on our operations by reducing our customers' compression needs and the demand for our services.

Further, President Biden has announced that he intends to take aggressive action to address climate-related issues and to set the United States on a path to be carbon-neutral by 2050. Among these developments at the international level is the United Nations Framework Convention on Climate Change, which produced the "Kyoto Protocol". More recently, in December 2015, 195 countries adopted under the Framework Convention a resolution known as the "Paris Agreement" to reduce emissions of greenhouse gases with a goal of limiting global warming to below 2°C (36°F). The Paris Agreement does not establish enforceable emissions reduction targets, but countries may establish greenhouse gas reduction measures pursuant to the agreement. The agreement went into effect in November 2016. The United States ratified the Paris Agreement in September 2016 but withdrew in November 2020. President Biden has since signed an order to rejoin the Paris Agreement. The new President has also announced a focus on climate-related issues and a goal of setting the United States on the path to net-zero carbon emissions by 2050.

Waste Management and Disposal

The federal Resource Conservation and Recovery Act ("RCRA") and analogous state laws and their implementing regulations govern the generation, transportation, treatment, storage and disposal of hazardous and non-hazardous solid wastes. During the course of our operations, we generate wastes (including, but not limited to, used oil, antifreeze, filters, paints and solvents) in quantities regulated under RCRA. The EPA and various state agencies have limited the approved methods of disposal for these types of wastes. CERCLA and analogous state laws and their implementing regulations impose strict, and under certain conditions, joint and several liability without regard to fault or the legality of the original conduct on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include current and past owners and operators of the facility or disposal site where the release occurred and any company that transported, disposed of, or arranged for the transport or disposal of the hazardous substances released at the site. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. In addition, where contamination may be present, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury, property damage and recovery of response costs allegedly caused by hazardous substances or other pollutants released into the environment.

We currently own or lease, and in the past have owned or leased, a number of properties that have been used in support of our operations for a number of years. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons, hazardous substances, or other regulated wastes may have been disposed of or released on or under the properties owned or leased by us or on or under other locations where such materials have been taken for disposal by companies sub-contracted by us. In addition, some of these properties may have been previously owned or operated by third parties whose treatment and disposal or release of hydrocarbons, hazardous substances or other regulated wastes was not under our control. These properties and the materials released or disposed thereon may be subject to CERCLA, RCRA and analogous state laws. Under such laws, we could be required to remove or remediate historical property contamination, or to perform certain operations to prevent future contamination. We are not currently under any order requiring that we undertake or pay for any cleanup activities. However, we cannot provide any assurance that we will not receive any such order in the future.

The Clean Water Act ("CWA") and the Oil Pollution Act of 1990 and implementing regulations govern:

- the prevention of discharges, including oil and produced water spills, and
- liability for drainage into waters.

The CWA and analogous state laws impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into waters of the United States. The discharge of pollutants into regulated waters and wetlands is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. The CWA also requires the development and implementation of spill prevention, control and countermeasures to help prevent the contamination of navigable waters in the event of a petroleum hydrocarbon spill or leak at hydrocarbon facilities. In addition, the CWA and analogous state laws require individual permits or coverage under general permits for discharges of storm water runoff from certain types of facilities. Federal and state regulatory agencies can impose administrative, civil and criminal penalties as well as other enforcement mechanisms for non-compliance with discharge permits or other requirements of the CWA and analogous state laws and regulations. Our compression operations do not generate process wastewaters that are discharged to waters of the U.S. However, the operations of our customers may generate such wastewaters subject to the CWA. While it is the responsibility of our customers to follow CWA regulations and obtain proper permits, violations of the CWA may indirectly impact our operations in a negative manner.

Air Emissions

Our operations are also subject to federal, state, and local regulations. The Clean Air Act and implementing regulations and comparable state laws and regulations regulate emissions of air pollutants from various industrial sources and also impose various monitoring and reporting requirements, including requirements related to emissions from certain stationary engines, such as those on our compressor units. These laws and regulations impose limits on the levels of various substances that may be emitted into the atmosphere from our compressor units and require us to meet more stringent air emission standards and install new emission control equipment on all of our engines built after July 1, 2008.

For instance, in 2010, the U.S. Environmental Protection Agency ("EPA") published new regulations under the CAA to control emissions of hazardous air pollutants from existing stationary reciprocal internal combustion engines. In 2012, the EPA proposed amendments to the final rule in response to several petitions for reconsideration, which were finalized and became effective in 2013. The rule requires us to undertake certain expenditures and activities, including purchasing and installing emissions control equipment on certain compressor engines and/or purchasing certified engines from complaint manufacturers.

In recent years, the EPA has lowered the National Ambient Air Quality Standard ("NAAQs") for several air pollutants. For example, in 2013, the EPA lowered the annual standard for fine particulate matter from 15 to 12 micrograms per cubic meter. In 2015, the EPA published the final rule strengthening the standards for ground level ozone, and the states are expected to establish revised attainment/non-attainment regions. State implementation of the revised NAAQS could result in stricter permitting requirements, delay or prohibit our customers' ability to obtain such permits, and result in increased expenditures for pollution control equipment, which could negatively impact our customers' operations by increasing the cost of additions to equipment, and negatively impact our business.

In 2012, the EPA finalized rules that establish new air emission controls for oil and natural gas production and natural gas processing operations. Specifically, the EPA's rule package included New Source Performance Standards to address emissions of sulfur dioxide and volatile organic compounds ("VOCs") and a separate set of emission standards to address hazardous air pollutants frequently associated with oil and natural gas production and processing activities. The rules established specific new requirements regarding emissions from compressors and controls at natural gas processing plants, dehydrators, storage tanks and other production equipment as well as the first federal air standards for natural gas wells that are hydraulically fractured. The EPA has taken a number of steps to amend or expand on these regulations since 2012. For example, in June 2016, the EPA published New Source Performance Standards that require certain new, modified or reconstructed facilities in the oil and natural gas sector to reduce methane gas and VOC emissions. However, in a March 2017 executive order, President Trump directed the EPA to review the 2016 regulations and, if appropriate, to initiate a rulemaking to rescind or revise them consistent with the stated policy of promoting clean and safe development of the nation's energy resources, while at the same time avoiding regulatory burdens that unnecessarily encumber energy production. In June 2017, the EPA published a proposed rule to stay for two years certain requirements of the 2016 regulations, including fugitive emission requirements. On September 11, 2018, the EPA proposed targeted improvements to the rule, including amendments to the rule's fugitive emissions monitoring requirements, and expects to "significantly reduce" the regulatory burden of the rule in doing so. These standards, as well as any future laws and their implementing regulations, may impose stringent air permit requirements, or mandate the use of specific equipment or technologies to control emissions. We cannot predict the final regulatory requirements or the cost to comply with such requirements with any certainty.

We believe that our existing environmental control procedures are adequate and that we are in substantial compliance with environmental laws and regulations, and the phasing in of emission controls and other known regulatory requirements should not have a material adverse affect on our financial condition or operational results. However, it is possible that future developments, such as new or increasingly strict requirements and environmental laws and enforcement policies there under, could lead to material costs of environmental compliance by us. While we may be able to pass on the additional cost of complying with such laws to our customers, there can be no assurance that attempts to do so will be successful. Some risk of environmental liability and other costs are inherent in the nature of our business, however, and there can be no assurance that environmental costs will not rise.

To the extent that new laws or other governmental actions restrict the energy industry or impose additional environmental protection requirements that result in increased costs to the oil and gas industry, we could be adversely affected. We cannot determine to what extent our future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations.

Occupational Safety and Health

We are subject to the requirements of Occupational Safety and Health Administration ("OSHA") and comparable state statutes. These laws and the implementing regulations strictly govern the protection of the health and safety of employees. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of CERCLA, and similar state statutes require that we maintain and/or disclose information about hazardous materials used or produced in our operations. We believe that we are in compliance with these applicable requirements and with other comparable laws.

Patents, Trademarks and Other Intellectual Property

We believe that the success of our business depends more on the technical competence, creativity and marketing abilities of our employees than on any individual patent, trademark, or copyright. Nevertheless, as part of our ongoing research, development and manufacturing activities, we may seek patents when appropriate on inventions concerning new products and product improvements. Although we continue to use technology that was previously covered by a patent and consider it useful in certain applications, we do not consider the expired patent to be material to our business as a whole.

Suppliers and Raw Materials

Fabrication of our rental compressors involves the purchase by us of engines, compressors, coolers and other components, and the assembly of these components on skids for delivery to customer locations. These major components of our compressors are acquired through periodic purchase orders placed with third-party suppliers on an "as needed" basis, which typically requires a three to six month lead time with delivery dates scheduled to coincide with our estimated production schedules. Although we do not have formal continuing supply contracts with any major supplier, we believe we have adequate alternative sources available. In the past, we have not experienced any sudden and dramatic increases in the prices of the major components for our compressors. However, the occurrence of such an event could have a material adverse effect on the results of our operations and financial condition, particularly if we are unable to increase our rental rates and sale prices proportionate to any such component price increases.

In addition, the COVID-19 outbreak poses the risk that our suppliers may be prevented from conducting their business at sufficient levels to provide us with necessary equipment and supplies in a timely and sufficient amount. We have experienced no supply disruptions nor have we received any indications that our supplies will be disrupted during this stage of the COVID-19 outbreak. To the extent we have difficulties in obtaining needed products and supplies in a timely manner, our results of operations and financial position may be adversely affected.

Available Information

We use our website as a channel of distribution for Company information. We make available free of charge on the Investor Relations section of our website (www.ngsgi.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. We also make available through our website other reports filed with or furnished to the SEC under the Securities Exchange Act of 1934, as amended, including our proxy statements and reports filed by officers and directors under Section 16(a) of the Exchange Act, as well as our Code of Business Ethics and the charters to our various Committees of our Board of Directors. Paper copies of our filings are also available, without charge upon written request. Please mail requests to Natural Gas Services Group, Inc., 404 Veterans Airpark Lane, Suite 300, Midland, TX 79705. The information contained on our website is not part of this Report.

ITEM 1A. RISK FACTORS

You should carefully consider the following risks associated with owning our common stock. Although the risks described below are the risks that we believe are material, they are not the only risks relating to our industry, our business and our common stock. Additional risks and uncertainties, including those that we have not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition or results of operations.

Risks Associated With Our Industry

The outbreak of COVID-19 and recent oil market developments could adversely impact our financial condition and results of operations.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus known as COVID-19 due to the risks it imposes on the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. During this time, the market began to experience a decline in oil prices in response to oil demand concerns due to the global economic impacts of COVID-19. These developments have led to significant weakness in oil prices and ensuing reductions of E&P company capital and operating budgets. If economic and industry conditions do not improve, these events will adversely impact our financial condition and results of operations in 2021 and perhaps beyond, as further discussed in risk factors below.

In addition, the spread of the virus into our workforce could prevent us meeting the demands of our customers and adequately servicing existing compressors. Similarly, if our customers or suppliers experience adverse business consequences due to COVID-19, demand for our equipment and services could also be adversely affected. The magnitude and duration of potential social, economic and labor instability as a direct result of COVID-19 cannot be estimated at this time. Should any of these potential impacts continue for an extended period of time, the impact on our business could have an adverse effect on our financial position and results of operations.

Adverse macroeconomic and business conditions may significantly and negatively affect our results of operations.

As a result of the COVID-19 outbreak discussed above and other economic conditions in the United States and abroad, our revenue and profitability has been and will likely continue to be adversely affected. The condition of domestic and global financial markets, relatively low oil and natural gas prices, and the potential for disruption and illiquidity in the credit markets could have an adverse effect on our operating results and financial condition, and if sustained for an extended period, such adverse effects could also become significant. Uncertainty and turmoil in the credit markets may negatively impact the ability of our customers to finance purchases of our products and services and could result in a decrease in, or cancellation of, orders included in our backlog or adversely affect the collectability of our receivables. If the availability of credit to our customers is reduced, they may reduce their drilling and production expenditures, thereby decreasing demand for our products and services, which could have a negative impact on our financial condition. A prolonged period of depressed prices for oil and natural gas would likely result in delays or cancellation of projects by our customers, reducing the demand for our products and services.

Decreased oil and natural gas prices and oil and gas industry expenditure levels adversely affect our revenue.

Our revenue is derived primarily from expenditures in the oil and natural gas industry, which, in turn, are based on budgets to explore for, develop and produce oil and natural gas. When these expenditures decline, as they have at various times during the past several years, our revenue will suffer. The industry's willingness to explore for, develop and produce oil and natural gas depends largely upon the prevailing view of future oil and natural gas prices. Prices for oil and natural gas historically have been, and are likely to continue to be, highly volatile. Many factors affect the supply and demand for oil and natural gas and, therefore, influence oil and natural gas prices, including:

- the level of oil and natural gas production;
- the level of oil and natural gas inventories;
- domestic and worldwide demand for oil and natural gas;
- the expected cost of developing new reserves;
- the cost of producing oil and natural gas;
- the level of drilling and completions activity;

- inclement weather;
- domestic and worldwide economic activity;
- regulatory and other federal and state requirements in the United States;
- the ability of the Organization of Petroleum Exporting Countries, national oil companies and other large producers to set and maintain production levels and prices for oil;
- political conditions in or affecting oil and natural gas producing countries;
- terrorist activities in the United States and elsewhere;
- the cost of developing alternate energy sources;
- environmental regulation; and
- tax policies.

Because of the significant reductions in the market prices of oil and natural gas in 2020, many companies developing oil and natural gas reserves have curtailed or canceled their drilling programs, thereby reducing demand for our equipment and services. Our rental contracts are generally short-term, and oil and natural gas companies tend to respond quickly to upward or downward changes in prices. Any prolonged reduction in drilling and production activities historically has reduced our compressor sales and materially eroded both rental pricing and utilization rates for our equipment and services and adversely affects our financial results. As a result of any such prolonged reductions, we may suffer losses, be unable to make necessary capital expenditures and be unable to meet our financial obligations.

The intense competition in our industry could result in reduced profitability and loss of market share for us.

We compete with the oil and natural gas industry's largest equipment and service providers who have greater name recognition than we do. These companies also have substantially greater financial resources, larger operations and greater budgets for marketing, research and development than we do. They may be better able to compete because of their broader geographic dispersion and ability to take advantage of international opportunities, the greater number of compressors in their fleet or their product and service diversity. As a result, we could lose customers and market share to those competitors. These companies may also be better positioned than us to successfully endure downturns in the oil and natural gas industry.

Our operations may be adversely affected if our current competitors or new market entrants introduce new products or services with better prices, features, performance or other competitive characteristics than our products and services. Competitive pressures or other factors also may result in significant price competition that could harm our revenue and our business. Additionally, we may face competition in our efforts to acquire other businesses.

A reduction in demand for oil could adversely affect our business.

Our results of operations depend upon the level of activity in the energy market, including oil development, production, and transportation. Oil and natural gas prices and the level of drilling and exploration activity can be volatile. For example, oil and natural gas exploration and development activity and the number of well completions typically decline when there is a significant reduction in oil and natural gas prices such as have occurred in 2020. As a result, the demand for our natural gas compression services will be adversely affected. A reduction in demand has, and could continue to, force us to reduce our pricing substantially. Additionally, our customers' production from oil-weighted reserves constitutes the majority percentage of our business. These unconventional sources are generally less economically feasible to be developed in low oil price environments. A decline in demand for oil and natural gas generally has an adverse effect on our business, financial condition and results of operations.

Our industry is highly cyclical, and our results of operations may be volatile.

Our industry is highly cyclical, with periods of high demand and high pricing followed by periods of low demand and low pricing. Periods of low demand intensify the competition in the industry and often result in rental equipment being idle for long periods of time. We have been required to enter into lower rate rental contracts in response to market conditions and our rentals and sales revenue have decreased as a result of such conditions. Due to the short-term nature of most of our rental contracts, changes in market conditions can quickly affect our business. As a result of the cyclicality of our industry, we anticipate our results of operations will be volatile in the future.

Increased regulation or ban of current fracturing techniques could reduce demand for our compressors.

From time to time, for example, legislation has been proposed in Congress to amend the federal Safe Drinking Water Act ("SDWA") to require federal permitting of hydraulic fracturing and the disclosure of chemicals used in the hydraulic fracturing process. Further, the EPA completed a study finding that hydraulic fracturing could potentially harm drinking water resources under adverse circumstances such as injection directly into groundwater or into production wells lacking mechanical integrity. Further, legislation to amend the SDWA to repeal the exemption for hydraulic fracturing (except when diesel fuels are used) from the definition of "underground injection" and require federal permitting and regulatory control of hydraulic fracturing, as well as legislative proposals to require disclosure of the chemical constituents of the fluids used in the fracturing process, have been proposed in recent sessions of Congress. Several states and local jurisdictions also have adopted or are considering adopting regulations that could restrict or prohibit hydraulic fracturing in certain circumstances, impose more stringent operating standards and/or require the disclosure of the composition of hydraulic fracturing fluids. While we do not perform hydraulic fracturing, many of our customers do and their activity level drives demand for our products.

More recently, federal and state governments have begun investigating whether the disposal of produced water into underground injection wells has caused increased seismic activity in certain areas. The results of these studies could lead federal and state governments and agencies to develop and implement additional regulations.

A ban of hydraulic fracturing would likely halt some projects, including unconventional projects, at least temporarily. Expanded regulations are likely to introduce a period of uncertainty as companies determine ways to proceed. Any curtailment could result in a reduction of demand for our compressors, potentially affecting both sales and rentals of our units.

We are subject to extensive environmental laws and regulations that could require us to take costly compliance actions that could harm our financial condition.

Our fabrication and maintenance operations are significantly affected by stringent and complex federal, state and local laws and regulations governing the discharge of substances into the environment or otherwise relating to environmental protection. In these operations, we generate and manage hazardous wastes such as solvents, thinner, waste paint, waste oil, wash down wastes, and sandblast material. We attempt to use generally accepted operating and disposal practices and, with respect to acquisitions, will attempt to identify and assess whether there is any environmental risk before completing an acquisition. Based on the nature of the industry, however, hydrocarbons or other wastes may have been disposed of or released on or under properties owned or leased by us or on or under other locations where such wastes have been taken for disposal. The waste on these properties may be subject to federal or state environmental laws that could require us to remove the wastes or remediate sites where they have been released. We could be exposed to liability for cleanup costs, natural resource and other damages as a result of our conduct or the conduct of, or conditions caused by, prior owners, lessees or other third parties. Environmental laws and regulations have changed in the past, and they are likely to change in the future. If current existing regulatory requirements or enforcement policies change, we may be required to make significant unanticipated capital and operating expenditures.

Any failure by us to comply with applicable environmental laws and regulations may result in governmental authorities taking actions against our business that could harm our operations and financial condition, including the:

- issuance of administrative, civil and criminal penalties;
- denial or revocation of permits or other authorizations;
- reduction or cessation in operations; and
- performance of site investigatory, remedial or other corrective actions.

Increasing attention to environmental, social and governance matters may impact our business, financial results and stock price.

In recent years, increasing attention has been given to corporate activities related to environmental, social and governance ("ESG") matters in public discourse and the investment community. A number of advocacy groups, both domestically and internationally, have campaigned for governmental and private action to promote change at public companies related to ESG matters, including through the investment and voting practices of investment advisers, public pension funds, universities and other members of the investing community. These activities include increasing attention and demands for action related to climate change and energy transition matters, such as promoting the use of substitutes to fossil fuel products and encouraging the divestment of fossil fuel equities, as well as pressuring lenders and other financial services companies to limit or curtail activities with fossil fuel companies.

Members of the investment community have begun to screen companies for sustainability performance, including practices related to climate change. In addition, organizations that provide information to investors on corporate governance and related matters have developed ratings systems for evaluating companies on their approach to ESG matters. These ratings are used by some investors to inform their investment and voting decisions. Unfavorable ESG ratings may lead to increased negative investor sentiment toward us and our industry and to the diversion of investment to other industries, which could have a negative impact on our stock price and our access to and costs of capital.

Increasing attention to climate change, increasing societal expectations on companies to address climate change, and potential consumer use of substitutes to energy commodities may result in increased costs, reduced demand for our customers' hydrocarbon products which will likely translate to reduced demand for compression services, reduced profits, increased investigations and litigation, increased governmental regulations and negative impacts on our stock price and access to capital markets.

Risks Associated With Our Company

A significant majority of our compressor rentals are for terms of six months or less which, if terminated or not renewed, would adversely impact our revenue and our ability to recover our initial equipment costs.

The length of our compressor rental agreements with our customers varies based on customer needs, equipment configurations and geographic area. In most cases, under currently prevailing rental rates, the initial rental periods are not long enough to enable us to fully recoup the average cost of acquiring or fabricating the equipment. Of the 1,274 compressors rented at December 31, 2020, 948 were rented on a month-to-month basis. Given the current oil and gas price environment, we cannot be sure that a substantial number of our customers will continue to renew their rental agreements or that we will be able to re-rent the equipment to new customers or that any renewals or re-rentals will be at comparable rental rates. The inability to timely renew or re-rent a substantial portion of our compressor rental fleet has and will have a material adverse effect upon our business, financial condition, results of operations and cash flows.

We could be subject to substantial liability claims that could harm our financial condition.

Our products are used in production applications where an accident or a failure of a product can cause personal injury, loss of life, damage to property, equipment or the environment, or suspension of operations. While we maintain insurance coverage, we face the following risks under our insurance coverage:

- we may not be able to continue to obtain insurance on commercially reasonable terms;
- we may be faced with types of liabilities that will not be covered by our insurance, such as damages from significant product liabilities and from environmental contamination;
- the dollar amount of any liabilities may exceed our policy limits; and
- we do not maintain coverage against the risk of interruption of our business.

Any claims made under our policies will likely cause our premiums to increase. Any future damages caused by our products or services that are not covered by insurance, are in excess of policy limits or are subject to substantial deductibles, would reduce our earnings and our cash available for operations.

The loss of one or more of our current customers could adversely affect our results of operations.

Our business is dependent not only on securing new customers but also on maintaining current customers. We had one customer that accounted for an aggregate of approximately 30% of our revenue for the year ended December 31, 2020, and the same customer accounted for an aggregate of approximately 36% of our revenue for the year ended December 31, 2019. At December 31, 2020, this same customer accounted for an aggregate of 35% of our accounts receivable. Unless we are able to retain our existing customers, or secure new customers if we lose one or more of our significant customers, our revenue and results of operations would be adversely affected. In addition, the default on payments by our significant customer or other important customers may negatively impact our cash flow and current assets.

Loss of key members of our management could adversely affect our business.

In keeping with our streamlined approach to our business, our executive management team consists of three officers: our (i) Chief Executive Officer, (ii) Chief Financial Officer and (iii) Vice President of Technical Services. We depend on the continued employment and performance of these three key members of our executive management team. In particular, we are significantly reliant upon the leadership and guidance of Stephen C. Taylor, who has been our President, Chief Executive Officer and Board member since 2004. In addition to his management duties, Mr. Taylor has been instrumental in our communications and standing with the investment community. If any of our key executives resign, such as the recent resignation of our Chief Financial Officer, or become unable to continue in his present role and is not adequately replaced, our business operations could be materially adversely affected. We do not carry any key-man insurance on any of our officers or directors.

The erosion of the financial condition of our customers could adversely affect our business.

Many of our customers finance their exploration and development activities through cash flow from operations, the incurrence of debt or the issuance of equity. During times when the oil or natural gas markets are weak, such as now, our customers are more likely to experience a downturn in their financial condition. Many of our customers' equity values and liquidity substantially declined during the most recent fall in oil and natural gas prices, and in some cases access to capital markets may be an unreliable source of financing for some customers. The combination of a reduction in cash flow resulting from declines in commodity prices, a reduction in borrowing bases under reserve-based credit facilities and the lack of availability of debt or equity financing may result in a reduction in our customers' spending for our products and services in 2021. For example, our customers could seek to preserve capital by canceling month-to-month contracts, canceling or delaying scheduled maintenance of their existing natural gas compression equipment or determining not to enter into any new natural gas compression service contracts or purchase new compression equipment.

We might be unable to employ qualified technical personnel, which could hamper our present operations or increase our costs.

Many of the compressors that we sell or rent are mechanically complex and often must perform in harsh conditions. We believe that our success depends upon our ability to employ and retain a sufficient number of technical personnel who have the ability to design, utilize, enhance and maintain these compressors. Our ability to maintain and expand our operations depends in part on our ability to utilize and increase our skilled labor force. The demand for skilled workers is high, and supply is limited. A significant increase in the wages paid by competing employers could result in a reduction of our skilled labor force or cause an increase in the wage rates that we must pay or both. If either of these events were to occur, our cost structure could increase and our operations and growth potential could be impaired.

We may require a substantial amount of capital to expand our compressor rental fleet and grow our business.

During 2021, the amount we will spend on capital expenditures related to rental compression equipment will be determined primarily by the activity of our customers. The amount and timing of any capital expenditures may vary depending on a variety of factors, including the level of activity in the oil and natural gas exploration and production industry and the presence of alternative uses for our capital, including any acquisitions that we may pursue.

During the past year, we funded our capital expenditures through cash flows from operations. Although we believe that cash on hand and cash flows from our operations and/or potential bank borrowing from our anticipated line of credit (see below) will provide us with sufficient cash to fund our planned capital expenditures for 2021, we cannot assure you that these sources will be sufficient. We may require additional capital to fund any significant unanticipated capital expenditures, such as a material acquisition. To the extent we would require any necessary capital, it may not be available to us when we need it or on acceptable terms. Our ability to raise additional capital will depend on the results of our operations and the status of various capital and industry markets at the time we seek such capital. Failure to generate sufficient cash flow, together with the absence of alternative sources of capital, could have a material adverse effect on our business, financial condition, results of operations or cash flow.

Our prior $30.0 million line of credit with JP Morgan Chase Bank, under which we owed $417,000 as of December 31, 2020, expired on March 31, 2021. On March 17, 2021, we repaid our outstanding principal balance and unpaid interest is due on March 31, 2021. We are in the process of negotiating a new line of credit and, although we believe that we will be able to obtain a new line of credit with another lender, we can provide no assurance that we will be successful in obtaining a new line. In addition, any creation of a new line of credit may be on terms less favorable that our existing line. For instance, changes in the terms of a new line of credit may include, but not be limited to: a reduction in the borrowing amount, an increase in interest rate to be paid on borrowings under the line, or restrictive covenants that are more onerous than those on our existing line of credit.

Our debt levels may negatively impact our current and future financial stability.

Should we utilize our full debt capacity, growth beyond that point could be impacted. As a result of our indebtedness at any given point in time, we might not have the ability to incur any substantial additional indebtedness. The level of our indebtedness could have several important effects on our future operations, including:

- our ability to obtain additional financing for working capital, acquisitions, capital expenditures and other purposes may be limited;
- a significant portion of our cash flow from operations may be dedicated to the payment of principal and interest on our debt, thereby reducing funds available for other purposes; and
- our leverage if increased to an unacceptable level, could make us more vulnerable to economic downturns.

If we are unable to service our debt, we will likely be forced to take remedial steps that are contrary to our business plan.

As noted above, our existing line of credit expired on March 31, 2021. Notwithstanding, we are in the process of negotiating a new line of credit which we anticipate will be in place by the end of April 2021, although we cannot guarantee that we will be successful in obtaining the new line of credit. We believe that our current cash position and anticipated cash flow from operations and the potential amount available under a new line of credit will be sufficient to meet our capital needs through 2021. However, if we are unable to obtain a new line of credit or were to materially increase our borrowings under a new line of credit or other borrowing arrangements, it is possible that our business will not generate sufficient cash flow from operations to meet any debt service requirements and the payment of principal when due depending on the amount of borrowings at any given time. If this were to occur, we may be forced to:

- sell assets at disadvantageous prices;
- obtain additional financing; or
- refinance all or a portion of our indebtedness on terms that may be less favorable to us.

We anticipate that any new credit agreement will contain covenants that limit our operating and financial flexibility and, if breached, could expose us to severe remedial provisions.

If we are successful in obtaining a new bank line of credit or similar borrowing arrangement, such arrangement will likely contain terms that require us to:

- comply various leverage, commitment coverage and other customary ratios;
- not exceed specified levels of debt
- comply with limits on asset sales;
- comply with limits on cash dividends;
- and other customary limitations.

Our ability to meet the financial ratios and tests under a new credit facility can be affected by events beyond our control, and we may not be able to satisfy those ratios and tests. A breach of any one of these potential covenants or requirements could permit the lending organization to accelerate outstanding amounts so that it is immediately due and payable. If a breach occurs, further borrowings will likely be unavailable under any such credit arrangement. If we are unable to repay any outstanding amounts, the lending organization could proceed against and foreclose on the assets we pledge as collateral to secure the loan, which will likely be a significant portion or substantially all of our assets.

If we fail to acquire or successfully integrate additional businesses, our growth may be limited and our results of operations may suffer.

As part of our business strategy, we evaluate potential acquisitions of other businesses or assets. However, there can be no assurance that we will be successful in consummating any such acquisitions. Successful acquisition of businesses or assets will depend on various factors, including, but not limited to, our ability to obtain financing and the competitive environment for acquisitions. In addition, we may not be able to successfully integrate any businesses or assets that we acquire in the future. The integration of acquired businesses is likely to be complex and time consuming and place a significant strain on management and may disrupt our business. We also may be adversely impacted by any unknown liabilities of acquired businesses, including environmental liabilities. We may encounter substantial difficulties, costs and delays involved in integrating common accounting, information and communication systems, operating procedures, internal controls and human resources practices, including incompatibility of business cultures and the loss of key employees and customers. These difficulties may reduce our ability to gain customers or retain existing customers, and may increase operating expenses, resulting in reduced revenues and income and a failure to realize the anticipated benefits of acquisitions.

Failure to effectively manage our business and growth could adversely affect our operating results and our internal controls.

Our strategy envisions the expansion and growth of our business, subject to the demand for oil and gas and the impact of the other risks set forth in this risk factor section and elsewhere in this Report. Growth may place a strain on our management systems and resources. We must continue to refine and expand our business capabilities, our systems and processes, and our access to financing sources. If we expand, we must continue to hire, train, supervise and manage new employees. We cannot assure that we will be able to:

- meet our capital needs;
- upgrade and expand our office and manufacturing infrastructure so that it is appropriate for our level of activity;
- expand our systems effectively or efficiently or in a timely manner, including financial and management controls, reporting systems and procedures; and
- attract, hire, train and retain additional highly skilled and motivated officers and employees and allocate our human resources optimally.

If we are unable to manage our growth, our financial conditions and results of operations may be adversely affected.

Liability to customers under warranties and indemnification provisions may materially and adversely affect our results of operations.

We provide warranties as to the proper operation and conformance to specifications of the equipment we manufacture. Our equipment is complex and often deployed in harsh environments. Failure of this equipment to operate properly or to meet specifications may increase our costs by requiring additional engineering resources and services, replacement of parts and equipment or monetary reimbursement to a customer. We have in the past received warranty claims and we expect to continue to receive them in the future. To the extent that we incur substantial warranty claims in any period, our reputation, our ability to obtain future business and our results of operations could be materially and adversely affected.

Our rental and sales contracts provide for varying forms of indemnification from our customers and in most cases may require us to indemnify our customers. Under some of our rental and sales contracts, liability with respect to personnel and property is customarily assigned on a “knock-for-knock” basis, which means that we and our customers assume liability for our respective personnel and property. However, in certain rental and sales contracts we assume liability for damage to our customer’s property and other third-party on the site resulting from our negligence. Since our products are used in production applications in the energy industry, expenses and liabilities in connection with accidents involving our products and services could be extensive and may exceed our insurance coverages.

Our income taxes may change.

We are subject to income tax on a jurisdictional or legal entity basis and significant judgment is required in certain instances to allocate our taxable income to a jurisdiction and to determine the related income tax expense and benefits. Losses in one jurisdiction generally may not be used to offset profits in other jurisdictions. As a result, changes in the mix of our earnings (or losses) between jurisdictions, among other factors, could alter our overall effective income tax rate, possibly resulting in significant tax rate increases.

We are regularly audited by various tax authorities. Income tax audit assessments or changes in tax laws, regulations, or other interpretations may result in increased tax provisions which could materially affect our operating results in the period or periods in which such determinations are made or changes occur.

Failure to maintain effective internal controls could have a material adverse effect on our operations.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting. If we fail to maintain effective internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for us to produce reliable financial reports and to help prevent financial fraud. If, as a result of deficiencies in our internal controls, we cannot provide reliable financial reports or prevent fraud, our business decision process may be adversely affected, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the price of our stock could decrease as a result.

In its Section 404 assessments, management has noted a material weakness in internal control over financial reporting in each of the prior two years. During the year ended December 31, 2018, management noted a material weakness related to our accounting and reporting of income taxes. During the year ended December 31, 2019, management noted another material weakness related to our accounting and reporting of compressor "make-ready" jobs, as well as various other compressor maintenance jobs, that were not recorded in a timely manner. As of December 31, 2020, based upon our most recent assessment of internal controls, management believes it has remediated these material weaknesses. Please see Item 9A, Controls and Procedures, Material Weaknesses in Internal Control over Financial Reporting.

We are exposed to risks related to Computer systems failures or cyber security threats

In the conduct of our business we are dependent upon our computing systems and those of third parties to collect, store, transmit and process data used in our operational activities and to record, process and track financial transactions. If interruptions were to occur we would be unable to access these systems for a period of time and there is a risk of data loss. Data backup and storage measures are in place that would allow recovery in a time frame that we believe would not materially impact our ability to conduct business.

We are also subject to cyber security attacks and have taken steps to minimize the probability of an attack penetrating our systems. These include network security, virus protection, filtering software and intrusion protection measures.

Risks Associated With Our Common Stock

The price of our common stock may fluctuate.

The trading price of our common stock and the price at which we may sell securities in the future are subject to substantial fluctuations in response to various factors, including our ability to successfully accomplish our business strategy, the trading volume of our stock, changes in governmental regulations, actual or anticipated variations in our quarterly or annual financial results, our involvement in litigation, general market conditions, the prices of oil and natural gas, announcements by us and our competitors, our liquidity, our ability to raise additional funds, and other events such as those discussed in the factors above.

Future sales of our common stock could adversely affect our stock price.

Substantial sales of our common stock in the public market, or the perception by the market that those sales could occur, may lower our stock price or make it difficult for us to raise additional equity capital in the future. According to filings made with the Securities and Exchange Commission in February 2021, an aggregate of approximately 27.9% of the outstanding shares of our common stock are owned by four institutional investors, each of which owns more than 5% of our outstanding shares as of the date of their respective filings in February 2021. Potential sales of large amounts of these shares in a short period of time by one or more of these significant investors could have a negative impact on our stock price. In addition, potential sales of our common stock by our directors and officers, who beneficially own approximately 6.8% of the outstanding shares of our common stock as of March 26, 2021, and because of the negative perception of sales by insiders, could also have a negative impact on our stock price.

We have a comparatively low number of shares of common stock outstanding and, therefore, our common stock may suffer from limited liquidity and its prices will likely be volatile and its value may be adversely affected.

Because of our relatively low number of outstanding shares of common stock, the trading price of our common stock will likely be subject to significant price fluctuations and limited liquidity. This may adversely affect the value of your investment. In addition, our common stock price is subject to fluctuations in response to variations in quarterly operating results, changes in management, future announcements concerning us, general trends in the industry and other events or factors such as those described above.

If we issue debt or equity securities, you may lose certain rights and be diluted.

If we raise funds in the future through the issuance of debt or equity securities, the securities issued may have rights and preferences and privileges senior to those of holders of our common stock, and the terms of the securities may impose restrictions on our operations or dilute your ownership in our Company.

We currently have on file with the SEC an effective "universal" shelf registration statement on Form S-3, which enables us to sell, from time to time, our common stock and other securities covered by the registration statement in one or more public offerings. The shelf registration statement allows us to enter the public markets and consummate sales of the registered securities in rapid fashion and with little or no notice. Issuances of securities under our shelf registration statement may dilute our existing shareholders.

If securities analysts downgrade our stock or cease coverage of us, the price of our stock could decline.

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. Furthermore, there are many large, well-established, publicly traded companies active in our industry and market, which may mean that it is less likely that we will receive widespread analyst coverage. If one or more of the analysts who do cover us downgrade our stock, our stock price would likely decline rapidly. If one or more of these analysts cease coverage of our company, we could lose visibility in the market, which in turn could cause our stock price to decline.

Provisions contained in our governing documents could hinder a change in control of us.

Our articles of incorporation and bylaws contain provisions that may discourage acquisition bids and may limit the price investors are willing to pay for our common stock. Our articles of incorporation and bylaws provide that:

- directors are elected for three-year terms, with approximately one-third of the board of directors standing for election each year;
- cumulative voting is not allowed, which limits the ability of minority shareholders to elect any directors;
- the unanimous vote of the board of directors or the affirmative vote of the holders of not less than 80% of the votes entitled to be cast by the holders of all shares entitled to vote in the election of directors is required to change the size of the board of directors; and
- directors may be removed only for cause or by the holders of not less than 80% of the votes entitled to be cast on the matter.

Our Board of Directors has the authority to issue up to five million shares of preferred stock. The Board of Directors can fix the terms of the preferred stock without any action on the part of our shareholders. The issuance of shares of preferred stock may delay or prevent a change in control transaction. In addition, preferred stock could be used in connection with the Board of Directors’ adoption of a shareholders’ rights plan (also known as a poison pill), which would make it much more difficult to effect a change in control of our Company through acquiring or controlling blocks of stock. Also, our directors and officers as a group will continue to beneficially own stock and although this is not a majority of our stock, it confers substantial voting power in the election of directors and management of our Company. This would make it difficult for other minority shareholders to effect a change in control or otherwise extend any significant control over our management. This may adversely affect the market price and interfere with the voting and other rights of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The table below describes the material facilities owned or leased by Natural Gas Services Group as of December 31, 2020:

Location	Status	Square Feet	Uses
Tulsa, Oklahoma	Owned and Leased	91,780	Compressor fabrication, rental and services
Midland, Texas	Owned	70,000	Compressor fabrication, rental and services
Lewiston, Michigan	Owned	15,360	Compressor fabrication, rental and services
Midland, Texas	Owned	45,000	Corporate office
Bloomfield, New Mexico	Owned	7,000	Office and parts and services
Godley, Texas	Leased	5,000	Parts and services
Galeton, Colorado	Leased	4,800	Parts and services
Bridgeport, Texas	Leased	4,500	Office and parts and services
Midland, Texas	Owned	4,100	Parts and services
Vernal, Utah	Leased	3,200	Parts and services
Carrollton, Ohio	Leased	2,600	Parts and services
Wheeler, Texas	Leased	2,160	Parts and services
Grapevine, Texas	Leased	800	Sales

We believe that our properties are generally well maintained and in good condition and adequate for our purposes.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are a party to various legal proceedings in the ordinary course of our business. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from these actions will not have a material effect on our financial position, results of operations or cash flow. We are not currently a party to any bankruptcy, receivership, reorganization, adjustment or similar proceeding, and we are not aware of any threatened litigation.

ITEM 4. MINE SAFETY DISCLOSURES

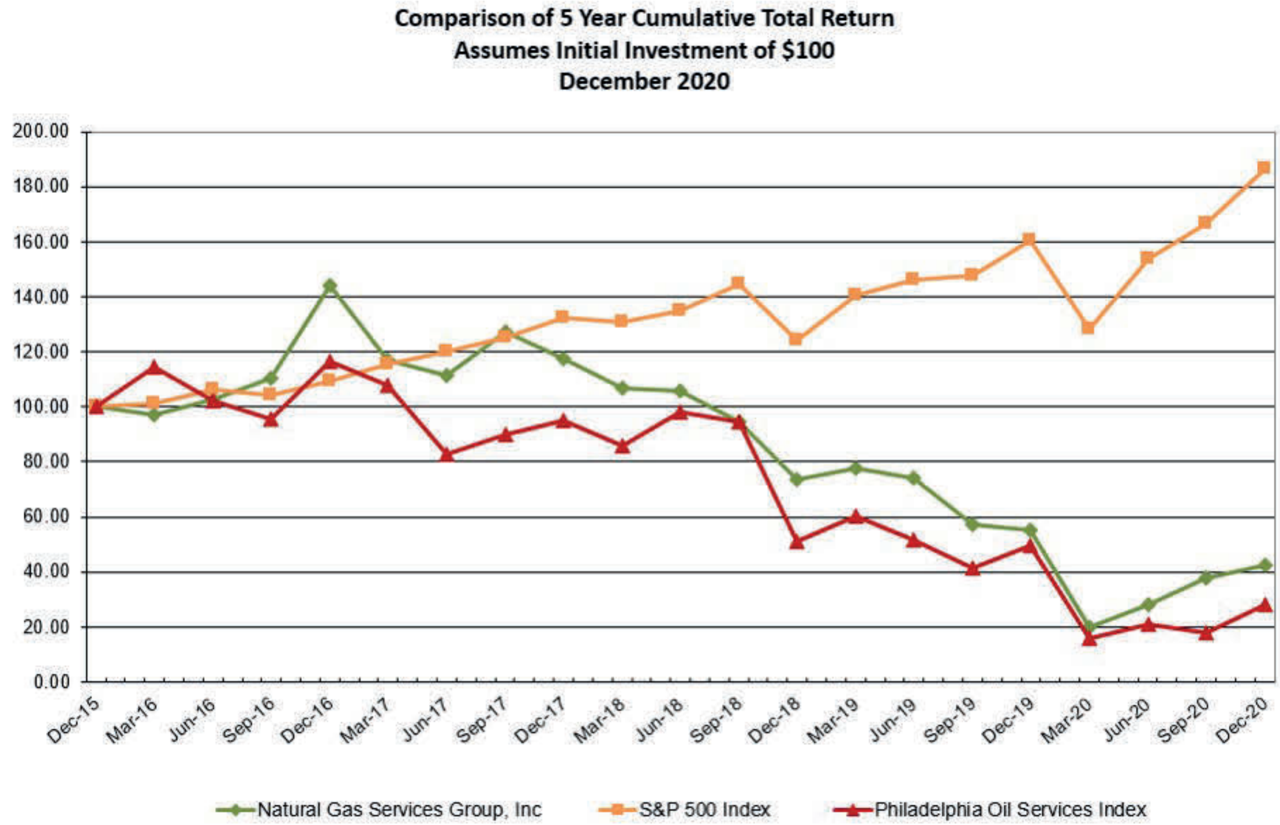
Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock currently trades on the New York Stock Exchange under the symbol "NGS". As of December 31, 2020 as reflected by our transfer agent records, we had 16 record holders of our common stock. This number does not include any beneficial owners for whom shares of common stock may be held in "nominee" or "street" name. On March 26, 2021, the last reported sale price of our common stock as reported by the New York Stock Exchange was $9.15 per share.

The following graph shows a five year comparison of the cumulative total stockholder return on our common stock as compared to the cumulative total return of two other indexes: a custom composite index of the Philadelphia Oil Service Index and the Standard & Poor's 500 Composite Stock Price Index. These comparisons assume an initial investment of $100 and the reinvestment of dividends.



The performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those Acts.

Dividends

To date, we have not declared or paid any dividends on our common stock. We currently do not anticipate paying a cash dividend on our common stock. Although we intend to retain our earnings, if any, to finance the growth of our business, our Board of Directors will have the discretion to declare and pay dividends in the future. Payment of dividends in the future will depend upon our earnings, capital requirements, and other factors, which our Board of Directors may deem relevant. Our credit agreement also contains restrictions on our paying dividends under certain circumstances.

Equity Compensation Plans

The following table summarizes certain information regarding our equity compensation plans as of December 31, 2020:

Plan Category	(a) Number of securities to vest or be issued upon exercise of outstanding options		(b) Weighted-average issuance or exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:				
Stock Option Plan	161,334	(1)	$ 24.48	384,503
Restricted Stock / Unit Plan (2)	34,899		$ 24.55	—
2019 Equity Incentive Plan	223,202		$ 11.04	200,141
Total	419,435			584,644

(1) Total number of shares to be issued upon exercise of options granted to employees, officers, and directors under our 1998 Stock Option Plan.

(2) The Restricted Stock/Unit Plan expired on June 20, 2019. The outstanding shares/units as of December 31, 2020, will vest in 2021 assuming the participant remains employed up to the vesting date, subject to acceleration under certain circumstances.

Stock Repurchase Program

On August 12, 2019, the Company announced the Board of Directors had authorized the repurchase of up to $10.0 million of its outstanding shares of common stock in the open market, block trades or privately negotiated transactions. The timing and extent of any repurchase is subject to the discretion of management and is dependent upon market pricing and conditions, business, legal, accounting and other considerations. The repurchase program does not obligate the Company to purchase any shares and was set to expire on September 30, 2020, subject to earlier termination of the program by the Board of Directors. On October 23, 2020, the Board of Directors authorized the extension of the repurchase program through September 30, 2021. The repurchase program may be modified, suspended or terminated at any time without notice, in the Company's discretion, based upon a number of factors, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, the need for capital in the Company's operations and other factors deemed appropriate. The Company intends to finance the repurchases with existing liquidity and free cash flow. To date, the Company repurchased 37,936 of its outstanding shares of common stock with a value of $490,000, at an average price of $12.91. No repurchases were made during 2020. As of December 31, 2020, the Company had approximately $9.5 million remaining under the repurchase authorization.

Sale of Unregistered Securities

We made no sales of unregistered securities during the year ended December 31, 2020.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist you in understanding our financial position and results of operations for each of the years ended December 31, 2020 and 2019. You should read the following discussion and analysis in conjunction with our audited financial statements and the related notes.

The following discussion contains forward-looking statements. For a description of limitations inherent in forward-looking statements, see "Special Note Regarding Forward-Looking Statements" on page ii.

Overview

We fabricate, manufacture, rent and sell natural gas compressors and related equipment. Our primary focus is on the rental of natural gas compressors. Our rental contracts generally provide for initial terms of six to 60 months, with our larger horsepower units having longer initial terms. After the initial term of our rental contracts, most of our customers have continued to rent our compressors on a month-to-month basis. Rental amounts are billed monthly in advance and include maintenance of the rented compressors. As of December 31, 2020, we had 1,274 natural gas compressors totaling 287,646 horsepower rented to 80 customers, compared to 1,419 natural gas compressors totaling 299,836 horsepower rented to 95 customers at December 31, 2019. Of the 1,274 compressors rented at December 31, 2020, 948 were rented on a month-to-month basis.

We also fabricate natural gas compressors for sale to our customers, designing compressors to meet unique specifications dictated by well pressures, production characteristics and particular applications for which compression is sought. Fabrication of compressors involves our purchase of engines, compressors, coolers and other components, and our assembling of these components on skids for delivery to customer locations. These major components of our compressors are acquired through periodic purchase orders placed with third-party suppliers on an "as needed" basis, which presently requires a two to three month lead time with delivery dates scheduled to coincide with our estimated production schedules. Although we do not have formal continuing supply contracts with any major supplier, we believe we have adequate alternative sources available. In the past, we have not experienced any sudden and dramatic increases in the prices of the major components for our compressors; however, the occurrence of such an event could have a material adverse effect on the results of our operations and financial condition, particularly if we were unable to increase our rental rates and sales prices proportionate to any such component price increases.

We also manufacture a line of compressor frames, cylinders and parts, known as our CiP (Cylinder-in-Plane) product line. We use finished CiP component products in the fabrication of compressor units for sale or rental by us or sell the finished component products to other compressor fabricators. We also design, fabricate, sell, install and service flare stacks and related ignition and control devices for onshore and offshore incineration of gas compounds such as hydrogen sulfide, carbon dioxide, natural gas and liquefied petroleum gases. To provide customer support for our compressor and flare sales businesses, we stock varying levels of replacement parts at our Midland, Texas facility and at field service locations. We also provide an exchange and rebuild program for screw compressors and maintain an inventory of new and used compressors to facilitate this business.

We provide service and maintenance to our non-rental customers under written maintenance contracts or on an as-required basis in the absence of a service contract. Maintenance agreements typically have terms of six months to one year and require payment of a monthly fee.

The following table sets forth our revenues from each of our three operating categories for the periods presented:

	Year Ended December 31, 2020	2019
	(in thousands)	
Rental	$ 60,826	$ 56,701
Sales	5,657	19,763
Service and maintenance	1,572	1,980
Total	$ 68,055	$ 78,444

Our strategy for growth is focused on our compressor rental business. Margins, exclusive of depreciation and amortization, for our rental business historically run in the mid-50% to low-60% range, while margins for the compressor sales business tend to be in the mid-20% range. If our rental business grows and contributes a larger percentage of our total revenues, we expect our overall company-wide margins, exclusive of depreciation and amortization, to improve over time.

The oil and natural gas equipment rental and services industry is cyclical in nature. The most critical factor in assessing the outlook for the industry is the worldwide supply and demand for oil and natural gas and the corresponding changes in commodity prices. As demand and prices increase, oil and natural gas producers typically increase their capital expenditures for drilling, development and production activities, although recent equity capital constraints and demands from institutional investors to keep spending within operating cash flow have meaningfully restrained capital expenditure budgets of domestic exploration and production companies. Generally, increased capital expenditures ultimately result in greater revenues and profits for service and equipment companies.

In general, we expect our overall business activity and revenues to track the level of activity in the oil and natural gas industry, with changes in crude oil and condensate production and consumption levels and prices affecting our business more than changes in domestic natural gas production and consumption levels and prices. In recent years we have increased our rental and sales in unconventional oil shale plays, which are more dependent on crude oil prices. With this shift towards oil production the demand for overall compression services and products is driven by two general factors; an increased focus by producers on artificial lift applications, e.g., production enhancement with compression assisted gas lift; and declining reservoir pressure in maturing natural gas producing fields, especially non-conventional production. These types of applications have historically been serviced by wellhead size compressors, and continue to be, but there has also been an economic move by our customers towards centralized drilling and production facilities, which have increased the market need for larger horsepower compressor packages. We recognized this need over the past two to three years and have shifted our cash and fabrication resources towards designing, fabricating and renting gas compressor packages that range from 400 horsepower up to 1,380 horsepower. While this is a response to market conditions and trends, it also provides us with the opportunity to compete as a full-line compression provider.

We typically experience a decline in demand during periods of low crude oil and natural gas prices. During 2019, we witnessed a moderation of crude oil prices as well as drilling and completion activity levels. During the first quarter of 2020, we saw a substantial decline in the prices for oil and natural gas. Activity levels of exploration and production companies have been and will be dependent not only on commodity prices, but also on their ability to generate sufficient operational cash flow to fund their activities. Generally, though, we feel that production activities (in which we are involved) will fare better than drilling activity. .

For fiscal year 2021, our forecasted capital expenditures will be directly dependent upon our customers' compression requirements and are not anticipated to exceed our internally generated cash flows. Any required capital will be for additions to our compressor rental fleet and/or addition or replacement of service vehicles. We believe that cash on hand and cash flows from operations will be sufficient to satisfy our capital and liquidity requirements through 2021. If we require additional capital to fund any significant unanticipated expenditures, including any material acquisitions of other businesses, joint ventures or other opportunities, this additional capital could exceed our current resources, might not be available to us when we need it, or might not be on acceptable terms.

Critical Accounting Policies and Practices

We have identified the policies below as critical to our business operations and the understanding of our results of operations. In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We describe our significant accounting policies more fully in Note 2 ("Summary of Significant Accounting Policies") to our consolidated financial statements.

Our critical accounting policies are as follows:

- revenue recognition;
- estimating the allowance for doubtful accounts receivable;
- accounting for income taxes;
- accounting for long-lived assets, intangible assets and goodwill; and
- accounting for inventory.

Revenue Recognition Policy

The Company adopted ASC 606, Revenue from Contracts with Customers ("ASC 606") on January, 1, 2018. Revenue is measured based on a consideration specified in a customer's contract, excluding any sale incentives and taxes collected on behalf of third parties (i.e. sales and property taxes). We recognize revenue once a performance obligation has been satisfied and control over a product or service has transferred to the customer. Shipping and handling costs incurred are accounted for as fulfillment costs and are included in cost of revenues in our Consolidated Statements of Operations.

Nature of Goods and Services

Rental Revenue. The Company generates revenue from renting compressors and flare systems to our customers. These contracts may also include a fee for servicing the compressor or flare during the rental contract. Our rental contracts typically range from six to 60 months, with our larger horsepower compressors having longer minimum contract terms. Our rental revenue is recognized over time, with equal monthly payments over the term of the contract. After the terms of the contract have expired, a customer may renew their contract or continue renting on a monthly basis thereafter.

Sales Revenue. The Company generates revenue by the sale of custom/fabricated compressors, flare systems and parts, as well as, exchange/rebuilding customer owned compressors and sale of used rental equipment. The Company designs and fabricates compressors and flares based on the customer's specifications outlined in their contract. Though the equipment being built is customized by the customer, control under these contracts does not pass to the customer until the compressor or flare package is completed and shipped, or, in accordance with a bill and hold arrangements, the customer accepts title and assumes the risk and rewards of ownership. We request some of our customers to make progressive payments as the product is being built; these payments are recorded as a contract liability on the Deferred Income line on the consolidated balance sheet until control has been transferred. These contracts also may include an assurance warranty clause to guarantee the product is free from defects in material and workmanship for a set duration of time; this is a standard industry practice and is not considered a performance obligation.

Allowance for Doubtful Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based on management's assessment of the customer's financial condition and payment history, as well as industry conditions and general economic conditions. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Management believes that its allowance for doubtful accounts is adequate; however, actual write-offs may exceed the recorded allowance.

Accounting for Income Taxes

As part of the process of preparing our financial statements, we are required to estimate our federal income taxes as well as income taxes in each of the states in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not probable, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense in the tax provision in the statement of income.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We currently have no valuation allowance and fully expect to utilize all of our deferred tax assets.

ASC 740 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In order to record any financial statement benefit, we are required to determine, based on technical merits of the position, whether it is more likely than not (a likelihood of more than 50 percent) that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. If that step is satisfied, then we must measure the tax position to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of the benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Our policy regarding income tax interest and penalties is to expense those items as other expense.

Long-Lived Assets, Intangible Assets and Goodwill

Rental Equipment, Property and Equipment (Including Retirement of Rental Equipment)

Rental equipment and property and equipment are recorded at cost less accumulated depreciation, except for work-in-progress on new rental equipment which is recorded at cost until it's complete and added to the fleet. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Our rental equipment has an estimated useful life between 15 and 25 years, while our property and equipment has an estimate useful lives which range from 3 to 39 years. The majority of our property and equipment, including rental equipment, is a direct cost to generating revenue.

We assess the impairment of rental equipment and property and equipment whenever events or changes in circumstances indicate that the net recorded amount may not be recoverable. The following factors could trigger an impairment review: significant underperformance relative to historical or projected future cash flows; significant adverse changes in the extent or manner in which asset (or asset group) is being used or its condition, including a meaningful drop in fleet utilization over the prior four quarters; significant negative industry or company-specific trends or actions, including meaningful capital expenditure budget reductions by our major customers or other sizable exploration and production or midstream companies, as well as significant declines in oil and natural gas prices; legislative changes prohibiting us from leasing our units or flares; or poor general economic conditions. An impairment loss is recognized if the future undiscounted cash flows associated with the asset (or asset group) and the estimated fair value of the asset are less than the asset's carrying value.

Goodwill (Including Impairment During 2019)

Goodwill represents the cost in excess of fair value of the identifiable net assets acquired. Goodwill is tested annually for impairment or as needed upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired. During the third quarter of 2019, the Company examined various qualitative factors to determine if a quantitative goodwill impairment test was needed. As a result of our qualitative assessment, we proceeded to perform our quantitative goodwill impairment analysis, where we used an independent valuation specialist to assist us in determining the fair value of our net assets. In this impairment analysis, the estimated fair value of our net assets was determined utilizing market and income-based approaches. Determining fair value in this analysis required significant judgment, including judgments about appropriate comparable companies, appropriate discount rates and our estimated future cash flows, which are subject to change. As a result of our quantitative evaluation, we recorded a goodwill impairment charge of $10.0 million in 2019.

Intangibles

At December 31, 2020 and 2019, NGS had intangible assets, which relate to developed technology and a trade name which was acquired in our acquisition of Screw Compression Systems in January 2005. This asset is not being amortized as it has been deemed to have an indefinite life.

Our policy is to review intangibles that are being amortized for impairment when indicators of impairment are present. In addition, it is our policy to review indefinite-lived intangible assets for impairment annually or when indicators of impairment are present. We review intangibles through an assessment of the estimated future cash flows related to such assets. In the event that assets are found to be carried at amounts in excess of estimated undiscounted future cash flows, then the assets will be adjusted for impairment to a level commensurate with a discounted cash flow analysis of the underlying assets. Based upon our analysis, we experienced no impairment of intangible assets (excluding goodwill) during the years ended December 31, 2020 or 2019.

In addition, in conjunction with our quantitative assessment of goodwill, we used the services of an independent valuation specialist to assist us in determining the fair value of our trade name during the third quarter of 2019. In this impairment analysis, the estimated fair value of our trade name was determined utilizing an income-based approach that required significant judgment, including those about an appropriate royalty rate and discount rate. This analysis indicated no impairment of our trade name.

Inventories

We value our total inventory (current and long-term) at the lower of the actual cost and net realizable value of the inventory. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on current and anticipated customer demand and production requirements. The Company accesses anticipated customer demand based on current and upcoming capital expenditure budgets of its major customers as well as other significant companies in the industry, along with oil and natural gas price forecasts and other factors affecting the industry. Given its concerns about the industry backdrop, Company management determined during 2019 that an increase of its inventory allowance was necessary. Due to the slow moving nature or obsolescence of a portion of the Company's long-term inventory and inventory related to the retirement of rental equipment, management recorded a charge of $3.8 million to write-off obsolete inventory from the balance sheet. For the year ended December 31, 2020, inventory allowance and write-off totaled $0.3 million. We ended 2020 with an inventory allowance balance of $221,000.

Our Performance Trends and Outlook

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus known as COVID-19 due to the risks it imposes on the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. During this time, the market began to experience a decline in oil prices in response to oil demand concerns due to the global economic impacts of COVID-19. These developments have led to significant weakness in oil prices and ensuing reductions of exploration and production company capital and operating budgets.

With the significant decline in oil prices as well as the general economic decline caused by the impacts of COVID-19, we expect utilization to continue to decline among our smaller horsepower and medium horsepower units during the remainder of 2021 after a minimal decline during 2020. In terms of sales, we expect minimal compressor sales for the year due to much lower capital expenditure budgets throughout the industry, including those of our major customers. Finally, we have recently experienced and expect to continue to experience pricing pressure from our customers and competitors until industry and economic conditions improve. We are currently experiencing no issues with potential workforce and supply chain disruptions. In addition, our relationship with our major customer continues to be strong, and they have continued to pay our invoices in a timely, consistent manner. Nevertheless, if any of these circumstances change, our business could be adversely affected.

While management anticipates that the industry and economic impact of the pandemic will have a negative effect on its results of operations in 2021 and perhaps beyond, the degree to which these factors will impact our business remains uncertain. Please read Item 1A, Risk Factors, in this report.

Results of Operations

Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

The table below shows our revenues and percentage of total revenues for each of our product lines for the years ended December 31, 2020 and 2019.

	Revenue			
	Year Ended December 31,			
	2020		2019	
	(dollars in thousands)			
Rental	$ 60,826	89.4 %	$ 56,701	72.3 %
Sales	5,657	8.3 %	19,763	25.2 %
Service & Maintenance	1,572	2.3 %	1,980	2.5 %
Total	$ 68,055		$ 78,444	

Total revenue decreased to $68.1 million from $78.4 million, or 13.2%, for the year ended December 31, 2020 compared to 2019. This decrease was mainly a result of lower sales revenue (71.4% decrease) primarily due to decreased compressor sales partially offset by increased rental revenue (7.3% increase) primarily due to a greater number of large horsepower units being rented.

Rental revenue increased to $60.8 million from $56.7 million for the year ended December 31, 2020 compared to 2019. As of December 31, 2020, we had 2,224 natural gas compressors in our rental fleet, down from 2,304 units at year end 2019. Despite this decrease, the Company's total unit horsepower increased by 2.1% to 438,524 at December 31, 2020 compared to 429,650 horsepower year end 2019, which reflects the addition of 24 high horsepower compressors with 20,600 horsepower to the Company's fleet during 2020. As of December 31, 2020, we had 1,274 natural gas compressors totaling 287,646 horsepower rented to 80 customers, compared to 1,419 natural gas compressors totaling 299,836 horsepower rented to 95 customers as of December 31, 2019. The rental fleet had a unit utilization as of December 31, 2020 and 2019, respectively, of 57.3% and 61.6% while our horsepower utilization for the same periods, respectively, was 65.6% and 69.8%. The decline in both utilization metrics was mainly the result of the decline in demand for our lower horsepower units.

Sales revenue decreased to $5.7 million from $19.8 million for the year ended December 31, 2020, compared to 2019. This decrease in largely attributable to a decrease in compressor sales primarily driven by reductions in capital spending from our customers due to a weakened oil and natural gas price environment during 2020. Sales are subject to fluctuations in timing of industry activity related to capital projects and, as such, can vary substantially between periods.

Company management routinely reviews its inventory balances for obsolescence. Due to the slow moving nature or obsolescence of a portion of the Company's long-term inventory and inventory related to the retirement of rental equipment, management recorded an increase of $251,000 in the inventory allowance reserve for costs that may not be recoverable in the future. We ended 2020 with an inventory allowance balance of $221,000.

Company management routinely reviews its rental fleet to determine which units are no longer of the type, configuration, make or model that our customers are demanding or that are not cost efficient to refurbish, maintain and/or operate. As a result of this review, we determined 216 units should be retired from our rental fleet. Accordingly, we recorded a $291,000 loss on retirement of rental equipment during the year ended December 31, 2020.

Operating loss decreased to $3.6 million for the year ended December 31, 2020 compared to an operating loss of $15.2 million for the year ended December 31, 2019. The decrease in operating loss was mainly due to a $10.0 million goodwill impairment charge in 2019 as well as lower losses on inventory allowance and write-off and reduced charges related to retirement of rental units. These decreases were partially offset by lower sales revenues.

Selling, general, and administrative expenses decreased to $10.6 million for the year ended December 31, 2020, as compared to $10.7 million for 2019. This 1.5% decrease was primarily the result of decreases in deferred compensation expense (approximately $187,000) and expenses related to stock options (approximately $100,000) partially offset by increased insurance costs ($86,0000).

Depreciation and amortization expense increased to $25.2 million from $23.3 million, or 8.3%, for the year ended December 31, 2020, compared to 2019. The increase is the result of higher capital expenditures for larger horsepower units being added to the fleet. We added 42 units (approximately 23,265 horsepower) to our fleet during the twelve month period ended December 31, 2020. Twenty-four of those units were 400 horsepower or larger (including 10 at 1,380 horsepower), representing approximately 89% of the horsepower added.

Income tax benefit increased to $4.8 million from $0.7 million for the year ended December 31, 2020 compared to 2019. Our effective tax rate for both years differs from the U.S. federal statutory rate of 21%. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the economic impact caused the COVID-19 pandemic. The CARES Act allows federal net operating losses ("NOL") incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid federal income taxes. The Company generated significant NOLs during 2018 and 2019. The Company filed its NOL carryback claims for 2018 and 2019 during 2020. Accordingly, the Company recorded a federal income tax receivable of $15.0 million and an increase to its deferred income tax liability of $10.1 million on its condensed consolidated balance sheet. During the third quarter of 2020, the Company received refunds totaling $3.9 million related to its 2018 NOLs, which, along with year end provision adjustments, reduced its federal income tax receivable to $11.9 million on its consolidated balance sheet as of December 31, 2020. In addition, the Company recorded a current income tax benefit of $4.8 million on its consolidated statement of operations for the year ended December 31, 2020. Our income tax benefit in 2019 was largely due to our net loss of $13.7 million but was largely offset by a difference in goodwill impairment for tax purposes as well as an adjustment to our state tax rates that increased our deferred income tax expense by approximately $0.8 million.

Adjusted Gross Margin Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

The table below shows our adjusted gross margin and related percentages for each of our product lines for the years ended December 31, 2020 and December 31, 2019. Adjusted gross margin is the difference between revenue and cost of revenues, exclusive of depreciation and amortization expense.

	Adjusted Gross Margin (1)			
	Year Ended December 31,			
	2020		2019	
	(dollars in thousands)			
Rental	$ 32,320	53.1 %	$ 29,118	51.4 %
Sales	(554)	(9.8)%	3,666	18.5 %
Service & Maintenance	858	54.6 %	1,350	68.2 %
Total	$ 32,624	47.9 %	$ 34,134	43.5 %

(1) For a reconciliation of adjusted gross margin to its most directly comparable financial measure calculated and presented in accordance with GAAP, please read "Non-GAAP Financial Measures" below.

Our overall adjusted gross margin percentage increased to 47.9% for the year ended December 31, 2020 compared to 43.5% for the year ended December 31, 2019, exclusive of depreciation and amortization. Our increase in gross margins is mainly due to an increase in total revenue related to our rental revenue. Rental revenues comprised 89% of our total revenues for the year ended December 31, 2020 compared to 72% of total revenues for the year ended December 31, 2019. As our rental activity inherently realizes higher adjusted gross margins, the increase in revenue concentrations will increase our overall adjusted gross margins. Sales margin decreased to (9.8)% in 2020 from 18.5% in 2019 due to significant declines in sales revenues (71.4%). While many sales costs are variable, certain costs such as labor are less variable as a certain staff level is retained to meet demand when market forces shift. Third party service and maintenance margins decreased to 54.6% from 68.2% for the year ended December 31, 2020 compared to 2019. Service and maintenance only represents 2.3% of our revenue in 2019, providing minimal impact on our overall adjusted gross margin.

Non-GAAP Financial Measures

Our definition and use of Adjusted EBITDA

“Adjusted EBITDA” is a non-GAAP financial measure that we define as earnings (net (loss) income) before interest, taxes, depreciation and amortization, as well as impairment of goodwill, an increase in inventory allowance and inventory write-offs, and retirement of rental equipment. This term, as used and defined by us, may not be comparable to similarly titled measures employed by other companies and is not a measure of performance calculated in accordance with GAAP. Adjusted EBITDA should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with GAAP. However, management believes Adjusted EBITDA is useful to an investor in evaluating our operating performance because:

- it is widely used by investors in the energy industry to measure a company's operating performance without regard to items excluded from the calculation of Adjusted EBITDA, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired, among other factors;
- it helps investors to more meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our capital structure and asset base from our operating structure; and
- it is used by our management for various purposes, including as a measure of operating performance, in presentations to our Board of Directors, as a basis for strategic planning and forecasting, and as a component for setting incentive compensation.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under generally accepted accounting principles. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, future requirements for capital expenditures, or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the cash requirements necessary to service interest or principal payments on our debts; and
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any capital expenditures for such replacements.

There are other material limitations to using Adjusted EBITDA as a measure of performance, including the inability to analyze the impact of certain recurring items that materially affect our net income or loss, and the lack of comparability of results of operations of different companies. Please read the table below under "Reconciliation" to see how Adjusted EBITDA reconciles to our net income, the most directly comparable GAAP financial measure.

Reconciliation

The following table reconciles our net (loss) income, the most directly comparable GAAP financial measure, to Adjusted EBITDA:

	Year Ended December 31,	
	2020	**2019**
	(in thousands)	
Net income (loss)	$ 1,808	$ (13,864)
Interest expense	14	15
Income tax (benefit) expense	(4,792)	(693)
Depreciation and amortization	25,198	23,268
Impairment of goodwill	—	10,039
Inventory allowance	184	3,758
Retirement of rental equipment	291	1,512
Adjusted EBITDA	$ 22,703	$ 24,035

Our definition and use of Adjusted Gross Margin

We define "Adjusted Gross Margin" as total revenue less costs of revenues (excluding depreciation and amortization expense). Adjusted gross margin is included as a supplemental disclosure because it is a primary measure used by our management as it represents the results of revenue and costs (excluding depreciation and amortization expense), which are key components of our operations. Adjusted gross margin differs from gross margin, in that gross margin includes depreciation expense. We believe adjusted gross margin is important because it focuses on the current operating performance of our operations and excludes the impact of the prior historical costs of the assets acquired or constructed that are utilized in those operations. Depreciation expense does not accurately reflect the costs required to maintain and replenish the operational usage of our assets and therefore may not portray the costs from current operating activity. Rather, depreciation expense reflects the systematic allocation of historical property and equipment values over the estimated useful lives.

Adjusted gross margin has certain material limitations associated with its use as compared to gross margin. These limitations are primarily due to the exclusion of depreciation expense, which is material to our results of operations. Because we use capital assets, depreciation expense is a necessary element of our costs and our ability to generate revenue. In order to compensate for these limitations, management uses this non-GAAP measure as a supplemental measure to other GAAP results to provide a more complete understanding of our performance.

As an indicator of our operating performance, adjusted gross margin should not be considered an alternative to, or more meaningful than, gross margin as determined in accordance with GAAP. Our adjusted gross margin may not be comparable to a similarly titled measure of another company because other entities may not calculate adjusted gross margin in the same manner.

Reconciliation

The following table calculates gross margin, the most directly comparable GAAP financial measure, and reconciles it to adjusted gross margin:

	Year Ended December 31,	
	2020	**2019**
	(in thousands)	
Total revenue	$ 68,055	$ 78,444
Costs of revenue, exclusive of depreciation and amortization	(35,431)	(44,310)
Depreciation allocable to costs of revenue	(24,578)	(22,908)
Gross margin	8,046	11,226
Depreciation allocable to costs of revenue	24,578	22,908
Adjusted gross margin	$ 32,624	$ 34,134

Liquidity and Capital Resources

Our working capital positions as of December 31, 2020 and 2019 are set forth below.

	As of December 31,	
	2020	2019
	(in thousands)	
Current Assets:		
Cash and cash equivalents	$ 28,925	$ 11,592
Trade accounts receivable, net	11,884	9,106
Inventory, net	19,926	21,080
Federal income tax receivable	11,538	—
Prepaid income taxes	66	40
Prepaid expenses and other	379	597
Total current assets	72,718	42,415
Current Liabilities:		
Accounts payable	$ 2,373	$ 1,975
Accrued liabilities	6,770	2,287
Line of credit	417	417
Current operating leases	198	189
Deferred income	1,103	640
Total current liabilities	10,861	5,508
Net working capital	$ 61,857	$ 36,907

For the year ended December 31, 2020, we invested approximately $15.3 million in rental equipment, property and other equipment. During the year, the Company added $13.0 million in new equipment to our rental fleet and $2.2 million in other property and equipment. Our investment in property and equipment includes any changes to work-in-progress related to our rental fleet jobs at the beginning of the year compared to the end of the year. Our rental work-in-progress decreased by $4.0 million during 2020. We financed our investment in rental equipment, property and other equipment with cash flows from operations during 2020.

Cash flows

At December 31, 2020, we had cash and cash equivalents of $28.9 million compared to $11.6 million at year end 2019. Our cash flow from operations of $32.6 million was partially offset by capital expenditures of $15.3 million during 2020. We also had working capital of $61.9 million at December 31, 2020 compared to $36.9 million at December 31, 2019. On December 31, 2020 and 2019, we had outstanding debt of $417,000, which is all related to our line of credit. We had net cash flow from operating activities of $32.6 million during 2020 compared $29.4 million during 2019. Our cash flow from operating activities of $32.6 million was primarily the result of our rental and sales revenues partially offset by associated costs of sales as well as a federal income tax refund of approximately $4.1 million.

At December 31, 2019, we had cash and cash equivalents of $11.6 million, working capital of $36.9 million and total debt of $417,000, under our credit agreement which was due on March 31, 2020. Our cash and cash equivalents decreased from 2018, due to an increase on our capital program for contracted new large horsepower compressor builds and the construction of our new corporate office. We had positive net cash flow from operating activities of approximately $29.4 million during 2019. This was primarily from a net loss of $0.5 million and non-cash items of depreciation and amortization of $23.3 million, $2.6 million related to stock-based compensation, a decrease in deferred income taxes of $0.3 million and a decrease in cash flows related to working capital and other items of $0.2 million.

Senior Bank Borrowings

We had a senior secured revolving credit agreement the ("Amended Credit Agreement") with JP Morgan Chase Bank, N.A (the "Lender") that expired on March 31, 20201. We have decided not to renew the Amended Credit Agreement and on March 17, 2021, we repaid the outstanding principal balance. No further amounts or obligations are owed on the Amended Credit Agreement. We are in the process of negotiating a new credit facility which we expect to complete by the end of April 2021, although no guarantee can be made that we will be successful in finalizing and securing a new credit facility.

Components of Our Principal Capital Expenditures

Capital expenditures for the two years ended December 31:

Expenditure Category	2020	2019
	(in thousands)	
Rental equipment and property and equipment	$ 15,257	$ 69,938

The level of our expenditures will vary in future periods depending on energy market conditions and other related economic factors. Based upon existing economic and market conditions, we believe that our cash on hand, operating cash flow and available line of credit are adequate to fully fund our net capital expenditures requirements for 2021. We also believe we have flexibility with respect to our financing alternatives and adjustments to our capital expenditure plans if circumstances warrant. We do not have any material continuing commitments related to our current operations that cannot be met with our cash on hand and our line of credit. However, our financing capacity could be negatively impacted by the COVID-19 pandemic. Please see Item 1A, Risk Factors, of this report.

Off-Balance Sheet Arrangements

From time-to-time, we enter into off-balance sheet arrangements and transactions that can give rise to off-balance sheet obligations. As of December 31, 2020, we did not have any material off-balance sheet arrangements.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, Income Taxes (ASC Topic 740), which simplifies accounting for income taxes by removing certain exceptions to various tax accounting principles and clarifies other existing guidance in order to improve consistency of application. These amendments are effective for public entities for interim and annual periods beginning after December 15, 2020. We are currently evaluating the impact of ASU 2019-12 on our consolidated financial statements and note disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (ASC Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments to ASC Topic 326 require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, including trade receivables. For companies that qualify as smaller reporting companies, the amendments in this update are effective for interim and annual periods beginning after January 1, 2023. We are currently evaluating the impact of ASU 2016-13 on our consolidated financial statements and note disclosures.

Environmental Regulations

Various federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to protection of human safety and health and the environment, affect our operations and costs. Compliance with these laws and regulations could cause us to incur remediation or other corrective action costs or result in the assessment of administrative, civil and criminal penalties and the issuance of injunctions delaying or prohibiting operations. In addition, we have acquired certain properties and plant facilities from third parties whose actions with respect to the management and disposal or release of hydrocarbons or other wastes were not under our control. Under environmental laws and regulations, we could be required to remove or remediate wastes disposed of or released by prior owners. In addition, we could be responsible under environmental laws and regulations for properties and plant facilities we lease, but do not own. Compliance with such laws and regulations increases our overall cost of business, but has not had a material adverse effect on our operations or financial condition. It is not anticipated, based on current laws and regulations, that we will be required in the near future to expend amounts that are material in relation to our total expenditure budget in order to comply with environmental laws and regulations but such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. We also could incur costs related to the cleanup of sites to which we send equipment and for damages to natural resources or other claims related to releases of regulated substances at such sites.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and supplementary financial data are included in this Annual Report on Form 10-K beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Vice President and Chief Financial Officer, of the effectiveness of the design of our “disclosure controls and procedures” (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended or, the “Exchange Act”) as of December 31, 2020, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the President and Chief Executive Officer and our Vice President and Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2020, are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive and financial officers as appropriate to allow timely decisions regarding required disclosures. Due to the inherent limitations of control systems, not all misstatements may be detected. Those inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls could be circumvented by the individual acts of some persons or by collusion of two or more people. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Management’s Report on Internal Control Over Financial Reporting

Our management, including the President and Chief Executive Officer and our Principal Accounting Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipt and expenditures are being made only in accordance with authorizations of management and our Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. A system of internal control may become inadequate over time because of changes in conditions or deterioration in the degree of compliance with the policies or procedures. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management, including our President and Chief Executive Officer and our Vice President and Chief Financial Officer, assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2020. For the year ended December 31, 2019, management determined that our internal control over financial reporting was not effective due to the material weaknesses noted below.

Material Weaknesses in Internal Control over Financial Reporting

During the fourth quarter of fiscal year 2018, we identified a material weakness in internal controls over financial reporting related to our accounting and reporting of income tax (expense) benefit and consolidated balance sheet and the consolidated operations statement accounts. We did not design and maintain an effective control environment with formal accounting policies and controls to adequately provide sufficient information for the preparation of our tax provision to our third party tax professionals and did not provide an appropriate level or sufficient review of the tax provision. The material weakness created a reasonable possibility that there could be a material misstatement of our annual or interim financial statements.

This material weakness resulted in an immaterial misstatement in the provision for income taxes in our consolidated financial statement as of and for the years ended December 31, 2017, 2016 and 2015. Consolidated financial statements included in our Annual Report on Form 10-K issued as of December 31, 2018 reflect the correction of this misstatement of income tax (expense) benefit, the related consolidated balance sheet and the consolidated operations statement accounts.

We have undergone evaluations, enhancements and implementation in our internal controls over financial reporting to address the identified material weakness. We have implemented various changes and enhancements to improve our controls related to the material weakness. After testing, our revised controls were not considered remediated at year end 2019, so further changes were implemented. Changes made include timely submittal of tax input data to our preparer, tie-out of key inputs and review meetings with financial management and our preparer to confirm assumptions and results. We have re-assessed our internal controls at the end of 2020 and have concluded that the changes made sufficiently remediate the material weakness.

During the fourth quarter of fiscal year 2019, we identified another material weakness in internal controls over financial reporting related to our accounting and reporting of compressor "make-ready" jobs, as well as various other compressor maintenance jobs, that were inappropriately capitalized, resulting in immaterial increases to the Company's cost of rentals and, to a much lesser extent, depreciation expense in prior periods. These increases in operating costs and expenses were immaterial to all prior annual and interim periods, but would have been material to the fourth quarter of 2019 if these cumulative operating costs and expenses were taken as an out-of-period adjustment.

We did not design and maintain an effective control environment with formal accounting policies and controls to adequately provide sufficient information to report these expenses in a timely manner. The material weakness created a reasonable possibility that there could be a material misstatement of our annual or interim financial statements.

Management reviewed its procedures around the activity that led to this material weakness during 2019. We have completed our review and changed the treatment of make-ready jobs to expense the cost at the time the job occurs and have made changes to our capitalization policy and review procedures. We believe these changes have been in place for a sufficient period to conclude that the material weakness has been remediated by the end of 2020.

Changes in Internal Control Over Financial Reporting

Except for the remediation of control deficiencies discussed above, there were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We will continue to review and document our disclosure controls and procedures, including our internal control over financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to the sections "Election of Directors," "Executive Officers," "Corporate Governance" and "The Board of Directors and its Committees" in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2020 or as such period may be extended by action of the Securities and Exchange Commission.

We have adopted a Code of Business Conduct and Ethics that applies to our directors, officers and employees. The Code of Business Conduct and Ethics is posted in the "Investor Relations" section of our website at www.ngsgi.com. The Code of Business Conduct and Ethics maybe obtained free of charge by writing before to Natural Gas Services Group, Inc., Attn: Investor Relations, 404 Veterans Airpark Lane, Ste 300 Midland, TX 79705.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the section "Executive Compensation" in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2020 or as such period may be extended by action of the Securities and Exchange Commission.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the section "Principal Shareholders and Security Ownership of Management" in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2020 or as such period may be extended by action of the Securities and Exchange Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the sections "Related Person Transactions" and "Corporate Governance" in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2020 or as such period may be extended by action of the Securities and Exchange Commission.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section "Principal Accounting Fees and Services" in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2020 or as such period may be extended by action of the Securities and Exchange Commission.

PART IV

ITEM 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENTS

The following documents are filed as part of this Annual Report on Form 10-K:

(a)(1) and (a)(2) Consolidated Financial Statements

For a list of Consolidated Financial Statements, see “Index to Consolidated Financial Statements” incorporated herein by reference.

(a)(3) Exhibits

A list of exhibits to this Annual Report on Form 10-K is set forth below:

Exhibit No.	Description
3.1	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 of the 10-QSB filed and dated November 10, 2004).
3.2	Bylaws, as amended (Incorporated by reference to Exhibit 3.11 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 21, 2016.)
10.1	2009 Restricted Stock/Unit Plan, as amended (Incorporated by reference to Exhibit 99.1 of the Registrant’s Current Report on Form 8-K dated June 3, 2014 and filed with the Securities and Exchange Commission on June 6, 2014.)
10.2	Stock Option Plan, as amended and restated (Incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 21, 2016.)
10.3	Credit Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 10, 2010 (Incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 24, 2014.)
10.4	Fifth Amendment of Credit Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated August 31, 2017 (Incorporated by reference to Exhibit 10.2 of the Registrant's Current report on Form 8-K filed with the Securities and Exchange Commission on September 7, 2017.)
10.5	Security Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated December 10, 2010 (Incorporated by reference to Exhibit 10.2 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2011.)
10.6	Fourth Security Agreement between Natural Gas Services Group, Inc. and JPMorgan Chase Bank, N.A., dated August 31, 2017 (Incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 7, 2017.)
10.7	Promissory Note in the aggregate amount of $30,000,000 issued to JPMorgan Chase Bank, N.A., dated August 31, 2017, in connection with the revolving credit line under the Credit Agreement with JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.3 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 7, 2017.)
10.8	Amended and restated Employment Agreement dated April 27, 2015 between Natural Gas Services Group, Inc. and Stephen C. Taylor (Incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 29, 2015.)
10.9	The Executive Nonqualified Excess Plan Adoption Agreement, referred to as the Nonqualified Deferred Compensation Plan (Incorporated by reference to Exhibit 10.11 of the Registrant's Quarterly report on Form 10-Q filed with the Securities and Exchange Commission on May 6, 2016.)

10.10	Annual Incentive Bonus Plan (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 18, 2012.)
*21.1	Subsidiaries of the registrant
*23.1	Consent of BDO USA, LLP
*23.2	Consent of Moss Adams, LLP
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATURAL GAS SERVICES GROUP, INC.

March 31, 2021

By: /s/ Stephen C. Taylor
Stephen C. Taylor
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Stephen C. Taylor Stephen C. Taylor	Chairman of the Board of Directors, Chief Executive Officer and President (Principal Executive Officer)	March 31, 2021
/s/ G. Larry Lawrence G. Larry Lawrence	Vice President and Chief Financial Officer (Principal Accounting Officer)	March 31, 2021
/s/ Leslie A. Beyer Leslie A. Beyer	Director	March 31, 2021
/s/ William F. Hughes, Jr. William F. Hughes, Jr.	Director	March 31, 2021
/s/ David L. Bradshaw David L. Bradshaw	Director	March 31, 2021
/s/ John W. Chisholm John W. Chisholm	Director	March 31, 2021

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Natural Gas Services Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Natural Gas Services Group, Inc. and subsidiary (the “Company”) as of December 31, 2020, the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Estimation of Undiscounted Cash Flows in Assessment of Long-Lived Asset Impairment

As described in Notes 1 and 4, the Company assesses long-lived assets, including rental equipment, for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The Company's evaluation of possible triggering events uses both internal and external data, including the following key indicators and internally developed assumptions: i) significant underperformance relative to historical or projected cash flows; ii) significant adverse changes in the extent or manner an asset group is being used or its condition, including meaningful drop in fleet utilization over the prior period quarters, and iii) significant negative industry or company specific trends or actions.

We identified the estimation of undiscounted cash flows in the assessment of long-lived asset impairment as a critical audit matter. The estimation of undiscounted cash flows uses inputs that require significant management judgment, including estimating future anticipated revenues and expenses. Assessing these assumptions require a high degree of subjective auditor judgment to perform procedures due to the nature and extent of audit evidence and effort required to appropriately address these matters.

The primary procedures we performed to address this critical audit matter included:

- Obtaining an understanding of the design of the Company's process and controls over the identification of possible long-lived asset impairment triggering events, including the process to develop the indicators and assumptions listed above.

- Evaluating management's identification of events or changes in circumstances that indicate the carrying amounts may not be recoverable.

- Evaluating management's estimate of useful lives of rental equipment, and anticipated rental rates of units, net returns or sets, and estimated gross margins utilized in the estimate of discounted cash flows by comparison to historical rates and performing sensitivity analysis.

- Evaluating the Company's ability to forecast future rental revenue and related assumptions by comparing to historical results of operations.

/s/ Moss Adams LLP

Dallas, Texas
March 31, 2021

We have served as the Company's auditor since 2020.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Natural Gas Services Group, Inc.
Midland, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Natural Gas Services Group, Inc. (the "Company") as of December 31, 2019, the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2029, and the results of its operations and its cash flows for each of the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 31, 2020 expressed an adverse opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor from 2010 to 2020.

Austin, Texas
March 31, 2020

NATURAL GAS SERVICES GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31, 2020	December 31, 2019
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 28,925	$ 11,592
Trade accounts receivable, net of allowance for doubtful accounts of $1,161 and $918, respectively	11,884	9,106
Inventory	19,926	21,080
Federal income tax receivable	11,538	—
Prepaid income taxes	66	40
Prepaid expenses and other	379	597
Total current assets	72,718	42,415
Long-Term Inventory, net of allowance for obsolescence of $221 and $24, respectively	1,065	1,068
Rental equipment, net of accumulated depreciation of $175,802 and $162,348, respectively	207,585	217,742
Property and equipment, net of accumulated depreciation of $13,916 and $12,847, respectively	21,749	21,869
Right of use assets - operating leases, net of accumulated amortization $356	483	604
Intangibles, net of accumulated amortization of $2,008 and $1,883, respectively	1,151	1,276
Other assets	2,050	1,603
Total assets	$ 306,801	$ 286,577
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 2,373	$ 1,975
Accrued liabilities	6,770	2,287
Line of credit	417	417
Current operating leases	198	189
Deferred income	1,103	640
Total current liabilities	10,861	5,508
Deferred income tax liability	41,890	31,243
Long-term operating leases	285	415
Other long-term liabilities	2,221	1,718
Total liabilities	55,257	38,884
Commitments and contingencies (Notes 6 and 17)		
Stockholders' Equity:		
Preferred stock, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, 30,000 shares authorized, par value $0.01; 13,296 and 13,178 shares issued, respectively	133	132
Additional paid-in capital	112,615	110,573
Retained earnings	139,286	137,478
Treasury shares, at cost, 38 shares	(490)	(490)
Total stockholders' equity	251,544	247,693
Total liabilities and stockholders' equity	$ 306,801	$ 286,577

See accompanying notes to these consolidated financial statements.

NATURAL GAS SERVICES GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except earnings per share)

	For the Years Ended December 31, 2020	For the Years Ended December 31, 2019
Revenue:		
Rental income	$ 60,826	$ 56,701
Sales	5,657	19,763
Service and maintenance income	1,572	1,980
Total revenue	68,055	78,444
Operating costs and expenses:		
Cost of rentals, exclusive of depreciation stated separately below	28,506	27,583
Cost of sales, exclusive of depreciation stated separately below	6,211	16,097
Cost of service and maintenance, exclusive of depreciation stated separately below	714	630
Selling, general and administrative expenses	10,550	10,710
Depreciation and amortization	25,198	23,268
Impairment of goodwill	—	10,039
Inventory allowance	184	3,758
Retirement of rental equipment	291	1,512
Total operating costs and expenses	71,654	93,597
Operating loss	(3,599)	(15,153)
Other income (expense):		
Interest expense	(14)	(15)
Other income	629	611
Total other income, net	615	596
Loss before income taxes:	(2,984)	(14,557)
(Provision for) benefit from income taxes:		
Current	15,438	31
Deferred	(10,646)	662
Total income tax benefit	4,792	693
Net income (loss)	$ 1,808	$ (13,864)
Earnings (loss) per share:		
Basic	$ 0.14	$ (1.06)
Diluted	$ 0.14	$ (1.06)
Weighted average shares outstanding:		
Basic	13,224	13,114
Diluted	13,261	13,114

See accompanying notes to these consolidated financial statements.

NATURAL GAS SERVICES GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Preferred Stock		Common Stock		Additional		Treasury Stock		Total
	Shares	Amount	Shares	Amount	Paid-In Capital	Retained Earnings	Shares	Amount	Stockholders' Equity
BALANCES, December 31, 2018	—	$ —	13,005	$ 130	$ 107,760	$ 151,342	—	$ —	$ 259,232
Exercise of common stock options	—	—	56	1	505	—	—	—	506
Compensation expense on common stock options	—	—	—	—	124	—	—	—	124
Issuance of restricted stock	—	—	117	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	1	2,457	—	—	—	2,458
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(273)	—	—	—	(273)
Purchase of treasury shares	—	—	—	—	—	—	38	(490)	(490)
Net loss	—	—	—	—	—	(13,864)	—	—	(13,864)
BALANCES, December 31, 2019	—	—	13,178	132	110,573	137,478	38	(490)	247,693
Compensation expense on common stock options	—	—	—	—	19	—	—	—	19
Issuance of restricted stock	—	—	118	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	1	2,175	—	—	—	2,176
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(152)	—	—	—	(152)
Net loss	—	—	—	—	—	1,808	—	—	1,808
BALANCES, December 31, 2020	—	$ —	13,296	$ 133	$ 112,615	$ 139,286	38	$ (490)	$ 251,544

See accompanying notes to these consolidated financial statements.

NATURAL GAS SERVICES GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended December 31,	
	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ 1,808	$ (13,864)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	25,198	23,268
Deferred taxes	10,646	(662)
Gain on disposal of assets	(284)	(55)
Retirement of rental equipment	291	1512
Bad debt allowance (recovery)	329	664
Inventory allowance	184	3,758
Impairment of goodwill	—	10,039
Stock-based compensation	2,195	2,582
(Gain) loss on company owned life insurance	(168)	(219)
Changes in operating assets and liabilities:		
Trade accounts receivables	(3,107)	(2,550)
Inventory	1,033	8,256
Prepaid income taxes and prepaid expenses	(11,346)	3,288
Accounts payable and accrued liabilities	4,880	(7,225)
Deferred income	463	559
Other	527	61
NET CASH PROVIDED BY OPERATING ACTIVITIES	32,649	29,412
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of rental equipment, property and other equipment	(15,257)	(69,938)
Purchase of company owned life insurance	(296)	(302)
Proceeds from insurance claim	—	35
Proceeds from sale of property and equipment	394	30
NET CASH USED IN INVESTING ACTIVITIES	(15,159)	(70,175)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds of other long-term liabilities	(5)	(16)
Proceeds from exercise of stock options	—	506
Purchase of treasury shares	—	(490)
Taxes paid related to net share settlement of equity awards	(152)	(273)
NET CASH USED IN FINANCING ACTIVITIES	(157)	(273)
NET CHANGE IN CASH AND CASH EQUIVALENTS	17,333	(41,036)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,592	52,628
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 28,925	$ 11,592
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 14	$ 39
Income taxes paid	105	275
NON-CASH TRANSACTIONS		
Transfer of rental equipment to inventory	—	836
Transfer of inventory to rental equipment	—	1,184
Transfer of prepaids to rental equipment and inventory	—	958
Right of use asset acquired through an operating lease	77	762

See accompanying notes to these consolidated financial statements.

NATURAL GAS SERVICES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Natural Gas Services Group, Inc. (the "Company", “NGS”, "Natural Gas Services Group", "we" or "our") (a Colorado corporation), is a leading provider of natural gas compression equipment and services to the energy industry. The Company manufactures, fabricates, rents, sells and maintains natural gas compressors and flare systems for oil and natural gas production and plant facilities. NGS is headquartered in Midland, Texas, with fabrication facilities located in Tulsa, Oklahoma and Midland, Texas, and service facilities located in major oil and natural gas producing basins in the U.S. The Company was formed on December 17, 1998.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its subsidiary, NGSG Properties, LLC and the rabbi trust associated with the Company’s deferred compensation plan, see Note 12. All significant intercompany accounts and transactions for the periods presented have been eliminated in consolidation.

Use of Estimates

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires our management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates include fixed asset lives, bad debt allowance and the allowance for inventory obsolescence. Additionally, NGS conducts a yearly review of impairment of long-lived assets. Throughout the review, determining factors are based on estimates that can significantly impact the carrying value of these assets. It is at least reasonably possible these estimates could be revised in the near term and the revisions could be material.

Cash Equivalents and Financial Instruments

For purposes of reporting cash flows, we consider all short-term investments with an original maturity of three months or less to be cash equivalents. We invest our cash primarily in deposits and money market funds with commercial banks. At times, cash balances at banks and financial institutions may exceed federally insured amounts. We believe that the risk to our cash balance is minimal because we have chosen a large bank with strong long-term ratings of Aa2/A+.

Accounts Receivable

Our trade receivables consist of customer obligations for the sale of compressors and flare systems due under normal trade terms, and operating leases for the use of our natural gas compressors. The receivables are not collateralized except as provided for under lease agreements. However, we typically require deposits of as much as 50% or use of progress payments for large custom sales contracts. We perform ongoing credit evaluations of our customers and adjust credit limits based on management's assessment of the customer's financial condition and payment history, as well as industry conditions and general economic conditions. We continuously monitor collections and payments from our customers, and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. One customer accounted for 35% of our accounts receivable as of December 31, 2020 and 2019. A significant change in the liquidity or financial position of this customer could have a material adverse impact on the collectability of our accounts receivable and our future operating results. The allowance for doubtful accounts was $1.2 million and $0.9 million at December 31, 2020 and 2019, respectively. Management believes that the allowance is adequate; however, actual write-offs may exceed the recorded allowance.

A summary of our allowance for doubtful accounts is as follows:

	Year Ended December 31,	
($ in thousands)	**2020**	**2019**
Beginning balance	$ (918)	$ (291)
Accruals	(329)	(664)
Recoveries	—	—
Write-offs	86	37
Ending balance	$ (1,161)	$ (918)

Revenue Recognition Policy

Revenue is measured based on a consideration specified in a customer's contract, excluding any sale incentives and taxes collected on behalf of third parties (i.e. sales and property taxes). Revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration that we expect to receive for those goods or services. To recognize revenue, we (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when, or as, we satisfy the performance obligation(s). Shipping and handling costs incurred are accounted for as fulfillment costs and are included in cost of revenues in our Consolidated Statements of Operations.

Nature of Goods and Services

The following is a description of principal activities from which the Company generates its revenue:

Rental Revenue. The Company generates revenue from renting compressors and flare systems to our customers. These contracts, which all qualify as operating leases under ASC Topic 842, Leases (ASC 842), may also include a fee for servicing the compressor or flare during the rental contract. Our rental contracts typically range from six to 24 months, with our larger horsepower compressors having contract terms of up to 60 months. Our revenue is recognized over time, with equal monthly payments over the term of the contract. After the terms of the contract have expired, a customer may renew their contract or continue renting on a monthly basis thereafter. In accordance ASC 842 – Leases, we have applied the practical expedient ASC 842-10-15-42A, which allows the Company to combine lease and non-lease components.

Sales Revenue. The Company generates revenue by the sale of custom/fabricated compressors, flare systems and parts, as well as, exchange/rebuilding customer owned compressors and sale of used rental equipment.

Custom/fabricated compressors and flare systems - The Company designs and fabricates compressors and flares based on the customer's specifications outlined in their contract. Though the equipment being built is customized by the customer, control under these contracts does not pass to the customer until the compressor or flare package is completed and shipped, or in accordance with a bill and hold arrangements the customer accepts title and assumes the risk and rewards of ownership. We request some of our customers to make progressive payments as the product is being built; these payments are recorded as a contract liability on the Deferred Income line on the consolidated balance sheet until control has been transferred. These contracts also may include an assurance warranty clause to guarantee the product is free from defects in material and workmanship for a set duration of time; this is a standard industry practice and is not considered a performance obligation.

From time to time, upon the customer's written request, we recognize revenue when manufacturing is complete and the equipment is ready for shipment. At the customer's request, we will bill the customer upon completing all performance obligations, but before shipment. The customer will formally request we ship the equipment per their direction from our manufacturing facility at a later specified date and that we segregate the equipment from our finished goods, such that they are not available to fill other orders. Per the customer's agreement change of control is passed to the customer once the equipment is complete and ready for shipment. We have operated using bill and hold agreements with certain customers for many years, with consistent satisfactory results for both the customer and us. The credit terms on these agreements are consistent with the credit terms on all other sales. All control is shouldered by the customer and there are no exceptions to the customer's commitment to accept and pay for the manufactured equipment. Revenues recognized related to bill and hold arrangements for the years ended December 31, 2020 and 2019 was approximately $0.9 million and $11.6 million, respectively.

Parts - Revenue is recognized after the customer obtains control of the parts. Control is passed either by the customer taking physical possession or the parts being shipped. The amount of revenue recognized is not adjusted for expected returns, as our historical part returns have been de minimis.

Exchange or rebuilding customer owned compressors - Based on the contract, the Company will either exchange a new/rebuilt compressor for the customer's malfunctioning compressor or rebuild the customer's compressor. Revenue is recognized after control of the replacement compressor has transferred to the customer based on the terms of the contract, i.e., by physical delivery, delivery and installment, or shipment of the compressor.

Used compressors or flares - From time to time, a customer may request to purchase a used compressor or flare out of our rental fleet. Revenue from the sale of rental equipment is recognized when the control has passed to the customer based on the terms of the contract, i.e. when the customer has taken physical possession or the equipment has been shipped.

Service and Maintenance Revenue. The Company provides routine or call-out services on customer owned equipment. Revenue is recognized after services in the contract are rendered.

Payment terms for sales revenue and service and maintenance revenue discussed above are generally 30 to 60 days although terms for specific customers can vary. Also, the transaction prices are not subject to variable consideration constraints.

Disaggregation of Revenue

The following table shows the Company's revenue disaggregated by product or service type for the years ended:

	Year Ended December 31,	
	2020	**2019**
	(in thousands)	
Compressors - sales	$ 2,211	$ 15,185
Flares - sales	489	959
Other (Parts/Rebuilds) - sales	2,957	3,619
Service and maintenance	1,572	1,980
Total revenue from contracts with customers	7,229	21,743
Add: ASC 842 rental revenue	60,826	56,701
Total revenue	$ 68,055	$ 78,444

Contract Balances

As of December 31, 2020 and 2019, we had the following receivables and deferred income from contracts with customers:

	December 31,	
	2020	**2019**
	(in thousands)	
Accounts Receivable		
Accounts receivable - contracts with customers	$ 3,243	$ 3,061
Accounts receivable - ASC 842	9,802	6,963
Total Accounts Receivable	13,045	10,024
Less: Allowance for doubtful accounts	(1,161)	(918)
Total Accounts Receivable, net	11,884	9,106
Deferred income	$ 1,103	$ 640

The Company recognized $73,000 in revenue for the year ended December 31, 2020 that was included in deferred income at the beginning of 2020. For the period ended December 31, 2019, the Company recognized revenue of $48,000 from amounts related to sales that were included in deferred income at the beginning of 2019.

The increases (decreases) of accounts receivable and deferred income were primarily due to normal timing differences between our performance and the customers' payments.

Transaction Price Allocated to the Remaining Performance Obligations

As of December 31, 2020, the Company did not have revenue related to unsatisfied performance obligations.

Contract Costs

The Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less. These costs are included in selling, general and administrative expense on our Consolidated Statements of Operations.

Leases

On January 1, 2019, we adopted ASC 842 using the modified retrospective method. We recognized the cumulative effect of initially applying the new lease standard and had no adjustments to retained earnings. The comparative information has not been restated and continues to be reported under the lease accounting standard in effect for those periods.

The new lease standard requires all leases to be reported on the balance sheet as right-of-use assets and lease obligations. We elected the practical expedients permitted under the transition guidance of the new standard that retained the lease classification and initial direct costs for any leases that existed prior to adoption of the standard. We did not reassess whether any contracts or land easements entered into prior to adoption are leases or contain leases.

The cumulative effect of the changes made to our consolidated balance sheet at January 1, 2019, for the adoption of ASC 842 was as follows:

	Balance at December 31, 2018	Adjustments due to ASC 842	Balance at January 1, 2019
		(in thousands)	
Balance Sheet			
Assets			
Right of use assets	$ —	$ 451	$ 451
Liabilities			
Current portion of operating leases	$ —	$ 126	$ 126
Long term portion of operating leases	—	325	325
Total lease liabilities	$ —	$ 451	$ 451

The Company, as a lessee, applies the practical expedient to not separate non-lease components from lease components, therefore, accounting for each separate lease component and its associated non-lease component, as a single lease component.

Each lease that 1) contains the same timing and pattern of transfer for lease and non-lease components; and 2) if the lease component, if accounted for separately, would be classified as an operating lease, the Company elects to not separate non-lease components from lease components.

Major Customers and Concentration of Credit Risk

Sales and rental income from Occidental Permian, LTD. ("Oxy") in 2020 and 2019 amounted to 30% and 36% of revenue, respectively. No other single customer accounted for more than 10% of our revenues in 2020 and 2019. Oxy's accounts receivable balances amounted to 35% and 35% of our accounts receivable as of December 31, 2020 and 2019, respectively. No other customers amounted to more than 10% of our accounts receivable as of December 31, 2020 and 2019.

Inventory

Inventory (current and long-term) is valued at the lower of cost and net realizable value. The cost of inventories is determined by the weighted average method. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on current and anticipated customer demand and production requirements. The Company assesses anticipated customer demand based on current and upcoming capital expenditure budgets of its major customers as well as other significant companies in the industry, along with oil and natural gas price forecasts and other factors affecting the industry. In addition, our long-term inventory consists of raw materials that remain viable but which the Company does not expect to sell within the next year.

Rental Equipment and Property and Equipment

Rental equipment and property and equipment are recorded at cost less accumulated depreciation, except for work-in-progress on new rental equipment which is recorded at cost until it's complete and added to the fleet. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Our rental equipment has an estimated useful life between 15 and 25 years, while our property and equipment has an estimate useful lives which range from 3 to 39 years. The majority of our property and equipment, including rental equipment, is a direct cost to generating revenue.

We assess the impairment of rental equipment and property and equipment whenever events or changes in circumstances indicate that the net recorded amount may not be recoverable. The following factors could trigger an impairment review: significant underperformance relative to historical or projected future cash flows; significant adverse changes in the extent or manner in which asset (or asset group) is being used or its condition, including a meaningful drop in fleet utilization over the prior four quarters; significant negative industry or company-specific trends or actions, including meaningful capital expenditure budget reductions by our major customers or other sizable exploration and production or midstream companies, as well as significant declines in oil and natural gas prices; legislative changes prohibiting us from leasing our units or flares; or poor general economic conditions. An impairment loss is recognized if the future undiscounted cash flows associated with the asset (or asset group) and the estimated fair value of the asset are less than the asset's carrying value.

Sales of equipment out of the rental fleet are included with sales revenue and cost of sales, while retirements of units are shown a separate operating expense. Gains and losses resulting from sales and dispositions of other property and equipment are included with other income. Maintenance and repairs are charged to cost of rentals as incurred.

Goodwill

Goodwill represents the cost in excess of fair value of the identifiable net assets acquired. Goodwill is tested annually for impairment or as needed upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired. As further described in Note 7 of these financial statements, we fully impaired the Company's goodwill during the third quarter of 2019, resulting in a goodwill impairment charge of $10.0 million for the year ended December 31, 2019.

Intangibles

At December 31, 2020 and 2019, NGS had intangible assets, which relate to developed technology and a trade name. Developed technology is amortized on a straight-line basis with a useful life of 20 years, with a weighted average remaining life of approximately five years as of December 31, 2020. NGS has an intangible asset related to the trade name of SCS which was acquired in our acquisition of Screw Compression Systems in January 2005. This asset is not being amortized as it has been deemed to have an indefinite life.

Our policy is to review intangibles that are being amortized for impairment when indicators of impairment are present. In addition, it is our policy to review indefinite-lived intangible assets for impairment annually or when indicators of impairment are present. We review intangibles through an assessment of the estimated future cash flows related to such assets. In the event that assets are found to be carried at amounts in excess of estimated undiscounted future cash flows, then the assets will be adjusted for impairment to a level commensurate with a discounted cash flow analysis of the underlying assets.

Warranty

We accrue amounts for estimated warranty claims based upon current and historical product warranty costs and any other related information known. There was no warranty reserve as of December 31, 2020. The warranty reserve was $74,000 for December 31, 2019, and is included in accrued liabilities on the consolidated balance sheet.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and operating losses and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not probable, we establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we include an expense in the tax provision in the statement of income.

ASC Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In order to record any financial statement benefit, we are required to determine, based on technical merits of the position, whether it is more likely than not (a likelihood of more than 50 percent) that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. If that step is satisfied, then we must measure the tax position to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of the benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

Our policy regarding income tax interest and penalties is to expense those items as other expense.

We account for uncertain tax positions in accordance with guidance in FASB ASC 740, which prescribes the minimum recognition threshold a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. We have no uncertain tax positions as of December 31, 2020.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. ASC Topic 820 established a fair value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value. These inputs are categorized as follows:

Level 1- quoted prices in an active market for identical assets or liabilities;

Level 2- quoted prices in an active market for similar assets or liabilities, inputs other than quoted prices that are observable for similar assets or liabilities, inputs derived principally from or corroborated by observable market data by correlation or other means; and

Level 3- valuation methodology with unobservable inputs that are significant to the fair value measurement.

Management believes that the fair value of our cash and cash equivalents, trade receivables, accounts payable and line of credit at December 31, 2020 and 2019 approximate their carrying values due to the short-term nature of the instruments or the use of prevailing market interest rates.

Segments and Related Information

ASC 280-10-50, “Operating Segments”, define the characteristics of an operating segment as a) being engaged in business activity from which it may earn revenue and incur expenses, b) being reviewed by the company's chief operating decision maker (CODM) for decisions about resources to be allocated and assess its performance and c) having discrete financial information. Although we indeed look at our products to analyze the nature of our revenue, other financial information, such as certain costs and expenses, net income and EBITDA are not captured or analyzed by these categories. Our CODM does not make resource allocation decisions or access the performance of the business based on these categories, but rather in the aggregate. Based on this, management believes that it operates in one business segment.

In their analysis of product lines as potential operating segments, management also considered ASC 280-10-50-11, “Aggregation Criteria”, which allows for the aggregation of operating segments if the segments have similar economic characteristics and if the segments are similar in each of the following areas:

- The nature of the products and services;
- The nature of the production processes;
- The type or class of customer for their products and services;
- The methods used to distribute their products or provide their services; and
- The nature of the regulatory environment, if applicable.

We are engaged in the business of designing and manufacturing compressors and flares. Our compressors and flares are sold and rented to our customers. In addition, we provide service and maintenance on compressors in our fleet and to third parties. These business activities are similar in all geographic areas. Our manufacturing process is essentially the same for the entire Company and is performed in house at our facilities in Midland, Texas and Tulsa, Oklahoma. Our customers primarily consist of entities in the business of producing natural gas. The maintenance and service of our products is consistent across the entire Company and is performed via an internal fleet of vehicles. The regulatory environment is similar in every jurisdiction in that the most impacting regulations and practices are the result of federal energy policy. In addition, the economic characteristics of each customer arrangement are similar in that we maintain policies at the corporate level.

Recently Issued Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform, which provides temporary optional guidance to companies impacted by the transition away from the London Interbank Offered Rate ("LIBOR"). The guidance provides certain expedients and exceptions to applying GAAP in order to lessen the potential accounting burden when contracts, hedging relationships and other transactions that reference LIBOR as a benchmark rate are modified. This guidance is effective upon issuance and expires on December 31, 2022. We are currently evaluating the impact of the LIBOR transition and this ASU 2020-04 on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (ASC Topic 740), which simplifies accounting for income taxes by removing certain exceptions to various tax accounting principles and clarifies other existing guidance in order to improve consistency of application. These amendments are effective for public entities for interim and annual periods beginning after December 15, 2020. We are currently evaluating the impact of ASU 2019-12 on our consolidated financial statements and note disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (ASC Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments to ASC Topic 326 require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, including trade receivables. For companies that qualify as smaller reporting companies, the amendments in this update are effective for interim and annual periods beginning after January 1, 2023. We are currently evaluating the impact of ASU 2016-13 on our consolidated financial statements and note disclosures.

3. Inventory

Our inventory, net of allowance for obsolescence of $221,000 and $24,000 at December 31, 2020 and 2019, respectively, consisted of the following:

	December 31,	
	2020	2019
	(in thousands)	
Raw materials - current	$ 18,026	$ 19,388
Work-in-process	1,900	1,692
Finished goods	—	—
Inventory - current	19,926	21,080
Raw materials - long term (net of allowances of $221 and $24, respectively)	1,065	1,068
Inventory - total	$ 20,991	$ 22,148

Our long-term inventory consists of raw materials that remain viable but which the Company does not expect to sell within the next year.

Inventory Allowance

Given its concerns about the industry backdrop, Company management determined during 2019 that an increase of its inventory allowance was necessary. Due to the slow moving nature or obsolescence of a portion of its long-term inventory and inventory related to the retirement of rental equipment, management recorded a charge of $3.8 million to write off inventory that will not be recoverable in the future. For the year ended December 31, 2020, inventory allowance totaled $0.3 million. We ended 2020 with an inventory allowance balance of $221,000.

A summary of our inventory allowance is as follows:

	Year Ended December 31,	
	2020	2019
	(in thousands)	
Beginning balance	$ (24)	$ (19)
Accruals	(251)	(3,758)
Write-offs	54	3,753
Ending balance	(221)	(24)

4. Rental Equipment, Property and Equipment

Rental Equipment

Our rental equipment and associated accumulated depreciation as of December 31, 2020 and 2019, respectively, consisted of the following:

	December 31,	
	2020	2019
	(in thousands)	
Compressor units	$ 379,623	$ 370,961
Work-in-progress	3,764	9,129
Rental equipment	383,387	380,090
Accumulated depreciation	(175,802)	(162,348)
Rental equipment, net of accumulated depreciation	$ 207,585	$ 217,742

Our rental equipment has an estimated useful life between 15 and 25 years. Depreciation expense for rental equipment was $22.7 million and $21.4 million for the year ended December 31, 2020 and 2019, respectively.

Retirement of Rental Equipment

Company management routinely reviews its inventory of rental equipment for retirement or obsolescence. During 2020, management reviewed the rental fleet to determine which units were not of the type, configuration, make or model that our customers are demanding or that were not cost efficient to refurbish, maintain and/or operate. As a result of this review, we determined 216 units should be retired from our rental fleet. Accordingly, we recorded a $0.3 million loss on retirement of rental equipment during the year ended December 31, 2020.

During our review of our rental compressor units in 2019, we determined 327 units should be retired from our rental fleet. We recorded a $1.5 million loss on retirement of rental equipment.

Property and Equipment

Property and equipment consists of the following at December 31, 2020 and 2019:

	Useful Lives (Years)	December 31, 2020	December 31, 2019
		($ in thousands)	
Land	—	$ 1,680	$ 1,290
Building	39	18,977	18,632
Building and leasehold improvements	39	1,168	1,168
Office equipment and furniture	5	2,016	2,001
Software	5	573	573
Machinery and equipment	7	3,653	3,492
Vehicles	3	7,598	7,560
Total		35,665	34,716
Less accumulated depreciation		(13,916)	(12,847)
Total		$ 21,749	$ 21,869

Depreciation expense for property and equipment was $2.3 million and $1.7 million for the year ended December 31, 2020 and 2019, respectively.

Depreciation Expense by Product Line

The following table depicts annual depreciation expense associated with each product line as well as our corporate activities at December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
	(in thousands)	
Rentals	$ 24,255	$ 22,596
Sales	281	275
Service & Maintenance	42	37
Corporate	495	235
Total	$ 25,073	$ 23,143

5. Rental Activity

We rent natural gas compressor packages to entities in the petroleum industry. These rental arrangements are classified as operating leases and generally have original terms of six months to sixty months and continue on a month-to-month basis thereafter.

Future minimum rent payments for arrangements not on a month-to-month basis at December 31, 2020 are as follows:

Years Ending December 31,		(in thousands)
2021	$	21,565
2022		15,084
2023		13,763
2024		8,590
2025		5,845
Thereafter		13,880
Total	$	78,727

6. Leases

The Company determines if an arrangement is a lease at inception by assessing whether it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company's leases are primarily related to property leases for its field offices. The Company's leases have remaining lease terms of one to nine years. Renewal and termination options are included in the lease term when it is reasonably certain that the Company will exercise the option.

The Company's lease agreements do not contain any contingent rental payments, material residual guarantees or material restrictive covenants.

Right of use assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As substantially all of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate, which is based on a fully collateralized loan over the lease term, to determine the present value of lease payments. Based on the present value of lease payments for the Company's existing leases, the Company recorded net lease assets and lease liabilities of approximately $451,000, respectively, upon adoption. The Company had no finance leases. The new lease standard did not materially impact the Company's consolidated statements of income and had no impact on the Company's consolidated statements of cash flows. The impact of the new lease standard on the December 31, 2020 and 2019 consolidated balance sheet was as follows:

	Classification on Consolidated Balance Sheet	December 31, 2020		December 31, 2019
		($ in thousands)		
Operating lease assets	Right of use assets-operating leases	$ 483		$ 604
Current lease liabilities	Current operating leases	$ 198		$ 189
Noncurrent lease liabilities	Long-term operating leases	285		415
Total lease liabilities		$ 483		$ 604
Weighted average remaining lease term in years		1.5		2.6
Implicit Rate		3.2 %		3.1 %

Operating lease costs are recognized on a straight-line basis over the lease term. Total operating lease costs for the year ended December 31, 2020 was approximately $550,000.

	December 31, 2020	December 31, 2019
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities		
Operating lease cost (1) (2)	$ 550	$ 548

(1) Lease costs are classified on the Consolidated Statements of Operations in cost of sales, cost of compressors and selling, general and administrative expenses.

(2) Includes costs of $333,000 for leases with terms of 12 months or less and $217,000 for leases with terms greater than 12 months for the year ended December 31, 2020. Includes costs of $350,000 for leases with terms of 12 months or less and $198,000 for leases with terms greater than 12 months for the year ended December 31, 2019.

The following table shows the future maturities of lease liabilities:

Years Ending December 31,	**Lease Liabilities**
	(in thousands)
2021	$ 211
2022	76
2023	38
2024	38
2025	38
Thereafter	130
Total lease payments	531
Less: Imputed interest	(48)
Total	$ 483

Rent expense under such leases was $217,000 and $198,000 for the years ended December 31, 2020 and 2019, respectively.

7. Goodwill

Goodwill represents the cost in excess of fair value of the identifiable net assets acquired. Goodwill is tested annually for impairment or as needed upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired. During the third quarter of 2019, the Company examined various qualitative factors to determine if a quantitative goodwill impairment test was needed. For several months prior to the end of the third quarter of 2019, the Company experienced a significant decline in stock price, which was reflective of the significant deterioration of stock prices of companies throughout the oilfield services sector. In addition, the Company noted its largest customer as well as several other exploration and production companies had announced significant reductions to their 2020 capital expenditures budgets compared to those in 2019. These reductions clearly indicated lower demand for oilfield services, including compression services, in 2020 compared to 2019. In addition, the reductions reflected the deteriorated equity markets for energy companies and demands from institutional investors that energy companies keep capital spending within operating cash flow. After considering these factors and various other industry, economic and company-specific factors, we calculated our market capitalization (based on our closing stock price) as of September 30, 2019, and compared it to the carrying value of our net assets. Since the carrying value of our net assets exceeded our market capitalization and after considering all of the aforementioned qualitative factors, Company management determined that it was more likely than not that the fair value of the Company's net assets was less than its carrying amount.

As a result of our qualitative assessment, we proceeded to perform our quantitative goodwill impairment analysis, where we used an independent valuation specialist to assist us in determining the fair value of our net assets. In this impairment analysis, the estimated fair value of our net assets was determined utilizing market and income-based approaches. Determining fair value in this analysis required significant judgment, including judgments about appropriate comparable companies, appropriate discount rates and our estimated future cash flows, which are subject to change. As a result of our quantitative evaluation, we recorded a goodwill impairment charge of $10.0 million in 2019 eliminating our goodwill balance at that date.

8. Intangibles

At December 31, 2020 and 2019, the Company had intangible assets, which relate to developed technology and a trade name. The carrying amount net of accumulated amortization at December 31, 2020 and 2019 was $1.2 million and $1.3 million, respectively. Amortization expense recognized in each of the years ending December 31, 2020 and 2019 was $125,000. Estimated amortization expense for the years 2021-2024 is $125,000 per year. The Company has an intangible asset with a gross carrying value of $654,000 at December 31, 2020 related to the trade name of SCS which was acquired in our acquisition of Screw Compression Systems in January 2005. This asset is not being amortized as it has been deemed to have an indefinite life.

The following table represents the identified intangible assets by major asset class (in thousands):

		December 31, 2020			December 31, 2019		
	Useful Life (years)	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed Technology	20	$ 2,505	$ 2,008	$ 497	$ 2,505	$ 1,883	$ 622
Trade Name	Indefinite	654	—	654	654	—	654
Total		$ 3,159	$ 2,008	$ 1,151	$ 3,159	$ 1,883	$ 1,276

Our policy is to review intangibles that are being amortized for impairment when indicators of impairment are present. In addition, it is our policy to review indefinite-lived intangible assets for impairment annually or when indicators of impairment are present. We review intangibles through an assessment of the estimated future cash flows related to such assets. In the event that assets are found to be carried at amounts in excess of estimated undiscounted future cash flows, then the assets will be adjusted for impairment to a level commensurate with a discounted cash flow analysis of the underlying assets. Based upon our analysis, we experienced no impairment of intangible assets (excluding goodwill) during the years ended December 31, 2020 or 2019.

In addition, in conjunction with our quantitative assessment of goodwill, we used the services of an independent valuation specialist to assist us in determining the fair value of our trade name during the third quarter of 2019. In this impairment analysis, the estimated fair value of our trade name was determined utilizing an income-based approach that required significant judgment, including those about an appropriate royalty rate and discount rate. This analysis indicated no impairment of our trade name.

9. Credit Facility

We had a senior secured revolving credit agreement with JP Morgan Chase Bank, N.A (the "Amended Credit Agreement") that matured on March 31, 2021. Please see Note 18 - Subsequent Events for further discussion of the maturity event. The Amended Credit Agreement had an aggregate commitment of $30 million, subject to collateral availability. We also had a right to request from the Lender, on an uncommitted basis, an increase of up to $20 million on the aggregate commitment (which could have potentially increased the commitment amount to $50 million).

Borrowing Base. At any time before the maturity of the Amended Credit Agreement, we could draw, repay and re-borrow amounts available under the borrowing base up to the maximum aggregate availability discussed above. Generally, the borrowing base equaled the sum of (a) 80% of our eligible accounts receivable plus (b) 50% of the book value of our eligible general inventory (not to exceed 50% of the commitment amount at the time) plus (c) 75% of the book value of our eligible equipment inventory. JPMorgan Chase Bank (the "Lender") could adjust the borrowing base components if material deviations in the collateral were discovered in audits of the collateral. We had $29.5 million borrowing base availability at December 31, 2020 under the terms of our Amended Credit Agreement.

Interest and Fees. Under the terms of the Amended Credit Agreement, we had the option of selecting the applicable variable rate for each revolving loan, or portion thereof, of either (a) LIBOR multiplied by the Statutory Reserve Rate (as defined in the Amended Credit Agreement), with respect to this rate, for Eurocurrency funding, plus the Applicable Margin ("LIBOR-based"), or (b) CB Floating Rate, which is the Lender's Prime Rate less the Applicable Margin; provided, however, that no more than three LIBOR-based borrowings under the agreement could be outstanding at any one time. For purposes of the LIBOR-based interest rate, the Applicable Margin is 1.50%. For purposes of the CB Floating Rate, the Applicable Margin is 1.25%.

Accrued interest was payable monthly on outstanding principal amounts, provided that accrued interest on LIBOR-based loans was payable at the end of each interest period, but in no event less frequently than quarterly. In addition, fees and expenses were payable in connection with our requests for letters of credit (generally equal to the Applicable Margin for LIBOR-related borrowings multiplied by the face amount of the requested letter of credit) and administrative and legal costs.

Maturity. The maturity date of the Amended Credit Agreement, originally scheduled for December 31, 2020, was extended to March 31, 2021 on December 29, 2020, at which time all amounts borrowed under the agreement will be due and outstanding letters of credit must be cash collateralized. The agreement could be terminated early upon our request or the occurrence of an event of default.

Security. The obligations under the Amended Credit Agreement were secured by a first priority lien on all of our inventory and accounts and lease receivables, along with a first priority lien on a variable number of our leased compressor equipment the book value of must be maintained at a minimum of 2.00 to 1.00 commitment coverage ratio (such ratio being equal to (i) the amount of the borrowing base as of such date to (ii) the amount of the commitment as of such date.)

Covenants. The Amended Credit Agreement contained customary representations and warranties, as well as covenants which, among other things, limited our ability to incur additional indebtedness and liens; enter into transactions with affiliates; make acquisitions in excess of certain amounts; pay dividends; redeem or repurchase capital stock or senior notes; make investments or loans; make negative pledges; consolidate, merge or effect asset sales; or change the nature of our business. In addition, we also had certain financial covenants that required us to maintain a leverage ratio less than or equal to 2.50 to 1.00 as of the last day of each fiscal quarter.

Events of Default and Acceleration. The Amended Credit Agreement contained customary events of default for credit facilities of this size and type, and included, without limitation, payment defaults; defaults in performance of covenants or other agreements contained in the loan documents; inaccuracies in representations and warranties; certain defaults, termination events or similar events; certain defaults with respect to any other Company indebtedness in excess of $50,000; certain bankruptcy or insolvency events; the rendering of certain judgments in excess of $150,000; certain ERISA events; certain change in control events and the defectiveness of any liens under the secured revolving credit facility. Obligations under the Amended Credit Agreement could be accelerated upon the occurrence of an event of default.

As of December 31, 2020, we were in compliance with all covenants in our Amended Credit Agreement. A default under our Credit Agreement would trigger the acceleration of our bank debt so that it is immediately due and payable. Such default would likely limit our ability to access other credit. At December 31, 2020 our balance on the line of credit was $417,000. Our weighted average interest rate for the year ended December 31, 2020 was 2.75%.

10. CARES Act Loan

On April 10, 2020, the Company entered into a promissory note (the "Loan") for an unsecured loan in the amount of $4.6 million through the Paycheck Protection Program ("PPP") established by the CARES Act and administered by the U.S. Small Business Administration ("SBA"). The Loan was made for the purpose of securing funding for salaries and wages of employees that may have otherwise been displaced by the outbreak of COVID-19 and the resulting detrimental impact on the Company's business. JPMorgan Chase Bank, N.A. (the "Lender") processed and funded the Loan.

On April 23, 2020, the SBA advised that companies that applied for and received PPP loans that had other sufficient sources of liquidity that would not be "significantly detrimental" to their businesses may be subject to increased scrutiny and potential liability unless these companies repaid their loans in full by May 7, 2020. While the Company believes it was justified in seeking the Loan and the funds received were earmarked for the purposes set forth in the original PPP regulations, the Company voluntarily repaid the Loan, with accrued interest, to the Lender on May 4, 2020.

11. Income Taxes

The (provision for) benefit from income taxes for the years ended December 31, 2020 and 2019, consists of the following (in thousands):

	2020	2019
Current benefit (provision):		
Federal benefit (expense)	$ 15,587	$ 86
State (expense) benefit	(149)	(55)
Total current benefit (provision)	15,438	31
Deferred benefit (provision):		
Federal benefit (expense)	(10,234)	662
State	(412)	—
Total deferred benefit (expense)	(10,646)	662
Total benefit (provision)	$ 4,792	$ 693

The effective tax rate for the years ended December 31, 2020 and 2019, differs from the statutory rate as follows:

	2020	2019
Statutory rate	21.0 %	21.0 %
State and local taxes	(17.0)%	(3.7)%
Uncertain tax position	— %	— %
Goodwill impairment	— %	(13.7)%
Research and development credit	— %	1.4 %
Stock based compensation	(13.1)%	(0.8)%
Nondeductible compensation	(11.6)%	(0.3)%
Effect of CARES Act	180.3 %	— %
Other	0.5 %	0.9 %
Effective rate	160.1 %	4.8 %
Deferred re-measurement for rate change	— %	— %
Effective rate	160.1 %	4.8 %

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the economic impact caused by the COVID-19 pandemic. The CARES Act, among other things, permits federal income tax net operating loss ("NOL") carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid federal income taxes. The Company generated significant NOLs during 2018 and 2019 and filed carryback claims for these losses to the preceding five years. Accordingly, as of March 31, 2020, the Company recorded a federal income tax receivable of $15.0 million and an increase to its deferred tax liability of $10.1 million on its condensed balance sheet. During the third quarter of 2020, the Company received refunds corresponding to the 2018 NOL carryback, leaving a balance in the federal income tax receivable of $11.5 million at December 31, 2020.

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and (liabilities) as of December 31, 2020 and 2019, are as follows (in thousands):

	2020	2019
Deferred income tax assets:		
Net operating loss	$ 3,361	$ 1,519
Research and development credits	1,363	161
Stock compensation	175	580
Deferred compensation	705	389
Other	398	160
Total deferred income tax assets	6,002	2,809
Deferred income tax liabilities:		
Property and equipment	(47,626)	(33,761)
Goodwill and other intangible assets	(266)	(291)
Total deferred income tax liabilities	(47,892)	(34,052)
Net deferred income tax liabilities	$ (41,890)	$ (31,243)

As of December 31, 2020, the Company had NOL carryforwards for federal income tax purposes of $11.6 million, which may be carried forward indefinitely and can offset up to 80% of future taxable income in any given year. Future changes in ownership, as defined by Section 382 of the Internal Revenue Code, could limit the amount of NOL carryforwards used in any one year. In general, under Section 382 and 383 of the IRC, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change NOLs and certain tax credits, to offset future taxable income and tax. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders changes by more than 50 percentage points over such stockholders' lowest percentage of ownership during the testing period (generally three years).

We account for uncertain tax positions in accordance with guidance in FASB ASC 740, which prescribes the minimum recognition threshold a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. The Company assessed whether it had any uncertain tax positions related to open tax years and concluded there were none. Accordingly, no reserve for uncertain tax positions has been recorded as of December 31, 2020 and 2019.

Our policy regarding income tax interest and penalties is to expense those items as incurred. During the years ended December 31, 2020 and 2019, there were no significant income tax interest or penalty items in the statement of income.

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With few exceptions, we are no longer subject to U.S. federal or state income tax examination by tax authorities for years before 2015.

12. Deferred Compensation Plans

Effective January 1, 2016, the Company established a non-qualified deferred compensation plan for executive officers, directors and certain eligible employees. The assets of the deferred compensation plan are held in a rabbi trust and are subject to additional risk of loss in the event of bankruptcy or insolvency of the Company. The plan allows for deferral up to 90% of a participant's base salary, bonus, commissions, director fees and restricted stock awards. A Company owned life insurance policy held in a rabbi trust is utilized as a source of funding for the plan. The cash surrender value of the life insurance policy is $2.0 million and $1.5 million as of December 31, 2020 and 2019, respectively, with a gain related to the policy of $168,000 and $218,800 reported in other income in our consolidated income statement for the year ended December 31, 2020 and 2019, respectively.

For deferrals of base salary, bonus, commissions and director fees, settlement payments are made to participants in cash, either in a lump sum or in periodic installments. The deferred obligation to pay the deferred compensation and the deferred director fees is adjusted to reflect the positive or negative performance of investment measurement options selected by each participant and was $2.2 million and $1.7 million as of December 31, 2020 and 2019, respectively. The deferred obligation is included in other long-term liabilities in the consolidated balance sheet.

For deferrals of restricted stock units, the plan does not allow for diversification, therefore, distributions are paid in shares of common stock and the obligation is carried at grant value. As of December 31, 2020 and 2019, respectively, we have 45,998 and 85,565 unvested restricted stock units being deferred. As of December 31, 2020 and 2019, respectively we have released and issued 145,702 and 89,187 shares to the deferred compensation plan with a value of $2.2 million and $1.7 million, respectively.

13. Stockholders' Equity

Preferred Stock

We have a total of 5.0 million authorized preferred shares with rights and preferences as designated by the Board of Directors. As of December 31, 2020 and 2019, there were no issued or outstanding preferred shares.

14. Stock-Based and Other Long-Term Incentive Compensation

Restricted Stock/Units

On June 18, 2014, at our annual meeting of shareholders, our shareholders approved a proposed amendment to the 2009 Restricted Stock/Unit Plan (the "2009 Plan") to add additional 500,000 shares of common stock to the Plan, thereby authorizing the issuance of up to 800,000 shares of common stock under the Plan. The 2009 Plan expired on June 16, 2019. At December 31, 2020 we had 34,899 shares outstanding under the 2009 Plan that will vest over the next one year.

On June 20, 2019, at our annual meeting of shareholders, our shareholders approved a new proposed Equity Incentive Plan for restricted shares/units and stock options. The Equity Incentive Plan allows issuance up to 500,000 share of common stock. As of December 31, 2020, we had 223,202 shares outstanding under the Equity Incentive Plan that will vest over the next three years.

In accordance with the Company's employment agreement with Stephen Taylor, the Company's Chief Executive Officer, the Compensation Committee reviewed his performance in determining the issuance of restricted common stock. Based on this review which included consideration of the Company's 2019 performance, Mr. Taylor, was awarded 94,133 restricted shares/units on April 28, 2020, which vest over three years, in equal installments beginning April 28, 2021. On April 28, 2020, the Compensation Committee awarded 10,000 restricted shares/units to James Hazlett, our Vice President of Technical Services. The restricted shares/units to Mr. Hazlett vest over three years, in equal installments, beginning April 28, 2021. We also awarded and issued 4,432 shares of restricted common stock/units to each of our four independent Board members as partial payment for 2020 directors' fees. The restricted stock/units issued to our directors vests in one year from the date of grant.

Compensation expense related to the restricted shares/units was approximately $2.2 million and $2.5 million for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, there was a total of approximately $1.8 million of unrecognized compensation expense related to the unvested portion of these restricted shares/units. This expense is expected to be recognized over the next three years. As of December 31, 2020, 200,141 shares were still available for issuance under the Equity Incentive Plan.

A summary of all restricted stock/units activity as of December 31, 2019 and 2020 and changes during the years then ended are presented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value *(in thousands)*
Outstanding, December 31, 2018	214,630	$ 25.51	8.85	$ 3,529
Granted	199,810	17.16	—	3,433
Vested	(134,674)	24.26	—	2,807
Canceled/Forfeited	—	—	—	—
Outstanding, December 31, 2019	279,766	$ 20.15	8.77	$ 3,430
Granted	123,185	5.68	—	700
Vested	(144,850)	20.82	—	946
Canceled/Forfeited	—	—	—	—
Outstanding, December 31, 2020	258,101	$ 12.87	8.61	$ 2,447

Other Long-Term Incentive Compensation

On April 28, 2020, based on its review of Mr. Taylor's 2019 performance, the Compensation Committee also issued a long-term incentive award of $1.1 million to Mr. Taylor that vests in equal, annual tranches over three years. At the time of vesting, each tranche will be payable in cash or common stock at the discretion of the Compensation Committee. In addition, on April 28, 2020, we issued a $50,000 award to each of our four independent members of our Board of Directors as partial payment for their services in 2020. These awards vest one year from the date of grant and are payable in cash upon vesting. The Company accounts for these other long-term incentive awards to Mr. Taylor and our independent Board members as liabilities under accrued liabilities on our condensed consolidated balance sheet. The vesting of these awards is subject to acceleration upon certain events, such as (i) death or disability of the recipient, (ii) certain circumstances in connection with a change of control of the Company, (iii) for executive officers, termination without cause (as defined in the agreement), and (iv) for executive officers, resignation for good reason (as defined). Total compensation expense related to these other long-term incentive awards was approximately $0.4 million for the year ended December 31, 2020. As of December 31, 2020 there was a total of $0.8 million of unrecognized compensation expense related to these other long-term incentive awards which is expected to be recognized over the next 2.25 years.

Stock Option Plan

Our Stock Option Plan which is stockholder approved, permits the granting of stock options to its employees for up to 1.0 million shares of common stock under the Stock Option Plan. We believe that such awards align the interests of our employees with our stockholders. Option awards are generally granted with an exercise price equal to the market price of our stock at the date of grant; those option awards generally vest based on three years of continuous service and have ten-year contractual terms. Certain option and share awards provide for accelerated vesting if there is a change in control of the Company (as defined in the Stock Option Plan). The last date that grants can be made under the Stock Option Plan is February 28, 2026. As of December 31, 2020, 384,503 shares were still available for issue under the Stock Option Plan.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of options granted is based on the vesting period and historical exercise and post-vesting employment termination behavior for similar grants. We use historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes.

Weighted average Black -Scholes fair value assumption during the year ended December 31, are as follows:	2020
Risk free rate	0.48 %
Expected life	6.59
Expected volatility	42.33 %
Expected dividend yield	— %

There were no stock option grants made in 2019.

A summary of all option activity as of December 31, 2019 and 2020 and changes during the years then ended are presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
				(in thousands)
Outstanding, December 31, 2018	283,686	$ 20.46	3.58	$ 434
Granted	—	—	—	—
Exercised	(56,352)	8.97	—	474
Canceled/Forfeited	(8,000)	21.60	—	—
Expired	(11,000)	17.74	—	—
Outstanding, December 31, 2019	208,334	$ 23.67	3.66	$ —
Granted	5,000	4.91	—	—
Exercised	—	—	—	—
Canceled/Forfeited	(12,000)	20.20	—	23,750
Expired	(40,000)	19.11	—	—
Outstanding, December 31, 2020	161,334	$ 24.48	3.48	$ —
Exercisable, December 31, 2020	161,334	$ 24.48	3.48	$ —

The weighted average grant date fair value of options granted during 2020 was $2.07. We had no grants in 2019. The total intrinsic value, or the difference between the exercise price and the market price on the date of exercise, of options exercised during the years ended December 31, 2019 was approximately $474,000. There were no option exercises in 2020. Cash received from stock options exercised during the years ended December 31, 2019 was approximately $506,000.

The following table summarizes information about our stock options outstanding at December 31, 2020:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Shares**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price**	**Shares**	**Weighted Average Exercise Price**
$0.01-18.00	24,500	0.41	$ 16.80	24,500	$ 16.80
$18.01-22.00	20,500	2.22	18.75	20,500	18.75
$22.01-26.00	42,167	4.28	22.90	42,167	22.90
$26.01-30.00	30,000	6.13	28.15	30,000	28.15
$30.01-34.00	44,167	3.22	30.41	44,167	30.41
	161,334	3.48	$ 24.48	161,334	$ 24.48

The summary of the status of our unvested stock options as of December 31, 2020 and changes during the year then ended is presented below.

Unvested stock options:	**Shares**	**Weighted Average Grant Date Fair Value**
Unvested at December 31, 2019	10,433	$ 11.93
Granted	5,000	2.07
Vested	(10,433)	11.93
Canceled/Forfeited	(5,000)	2.07
Unvested at December 31, 2020	—	$ —

We recognized stock compensation expense from stock options vesting of $19,366 and $124,000 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020, there was no unamortized compensation cost related to unvested stock options.

15. (Loss) Earnings per Share

Basic (loss) earnings per common share is computed using the weighted average number of common shares outstanding during the period. Diluted (loss) earnings per common share is computed using the weighted average number of common stock and common stock equivalent shares outstanding during the period.

The following table sets forth the computation of basic and diluted (loss) earnings per share (in thousands, except per share amounts):

	Year Ended December 31,	
	2020	2019
Numerator:		
Net (loss) income	$ 1,808	$ (13,864)
Denominator for basic net (loss) income per common share:		
Weighted average common shares outstanding	13,224	13,114
Denominator for diluted net (loss) income per share:		
Weighted average common shares outstanding	13,224	13,114
Dilutive effect of stock options and restricted shares	37	—
Diluted weighted average shares	13,261	13,114
(Loss) earnings per common share:		
Basic	$ 0.14	$ (1.06)
Diluted	$ 0.14	$ (1.06)

In the year ended ended December 31, 2020, 221,061 restricted stock/units and 161,334 stock options were not included in the computation of dilutive income per share, due to their anti-dilutive effect. In the year ended ended December 31, 2019, 279,766 restricted stock/units and 208,334 stock options were not included in the computation of diluted loss per share due to their antidilutive effect.

16. Related Party

In 2016, we entered into a joint venture partnership, N-G, LLC ('N-G"), with Genis Holdings, LLC ("Genis") to explore new technologies for wellhead compression. NGS and Genis both share 50% ownership of N-G. We account for this investment under the equity method. In 2018, we ordered some compressor packages from Genis, totaling $1.0 million. The compressors were completed and paid in full at December 31, 2019.

17. Commitments and Contingencies

Legal Proceedings

From time to time, we are a party to various legal proceedings in the ordinary course of our business. While management is unable to predict the ultimate outcome of these actions, it believes that any ultimate liability arising from these actions will not have a material effect on our financial position, results of operations or cash flow. We are not currently a party to any bankruptcy, receivership, reorganization, adjustment or similar proceeding, and we are not aware of any other threatened litigation.

18. Subsequent Events

On March 31, 2021 our Amended Credit Agreement expired and we have decided not to renew the Amended Credit Agreement. On March 17, 2021 all outstanding indebtedness was repaid. We are in the process of negotiating a new credit facility which we expect to complete by the end of April 2021, although no guarantee can be made that we will be successful in finalizing and securing a new credit facility.

EXECUTIVE OFFICERS
&
DIRECTORS

STEPHEN C. TAYLOR
Chairman of the Board, President and Chief Executive Officer

G. LARRY LAWRENCE
Vice President and Chief Financial Officer

JAMES R. HAZLETT
Vice President –Technical Services

LESLIE A. BEYER
Director
President, The Petroleum Equipment & Services Association

DAVID L. BRADSHAW
Director
Oil and Gas Investor, Former Chairman and CEO, Tipperary Corporation

JOHN W. CHISHOLM
Director
Chief Executive Officer,
John Chisholm Group, LLC
Former President and CEO,
Flotek Industries, Inc.

NIGEL J. JENVEY
Director
Global Head of Carbon Management,
Gaffney, Cline & Associates

LEGAL COUNSEL
David A. Thayer
Jones & Keller, P.C.
1999 Broadway, Suite #3150
Denver, Colorado 80202

INVESTOR RELATIONS
Alicia M. Dada
Natural Gas Services Group
Investor Relations Coordinator

INDEPENDENT AUDITORS
Moss Adams LLP
14555 Dallas Parkway, Suite 300
Dallas, Texas 75254

STOCK TRANSFER AGENT
Computershare
8742 Lucent Blvd. Suite 225
Highlands Ranch, CO 80129

NATURAL GAS SERVICES GROUP, INC.

ABOUT NATURAL GAS SERVICES GROUP, INC.: Headquartered in Midland TX, Natural Gas Services Group (NGS) maintains a growing rental fleet of high quality rotary screw and reciprocating wellhead compressors in the 50-1500 horsepower range. Repair and maintenance services for our rental fleet units is provided through a network of district offices in Midland, Bridgeport and Godley TX, Farmington NM, Vernal UT, Tulsa OK, Galeton CO, Carrollton OH and Lewiston MI. Additionally, the Company designs, fabricates, sells, installs and services gas compression and technologically advanced flare and combustion systems in our custom fabrication facilities in Midland TX and Tulsa OK.

(432) 262-2700 404 VETERANS AIRPARK LANE, SUITE 300 MIDLAND, TX 79705 WWW.NGSGI.COM