

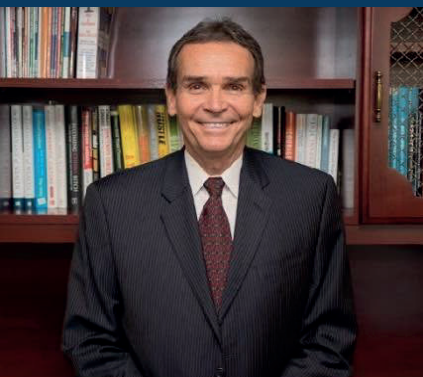


NATURAL GAS SERVICES GROUP, INC.

# ANNUAL REPORT

2020

# LETTER TO SHAREHOLDERS



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

Dear NGS Shareholder:

## *Unprecedented uncertainty.*

Those two words accurately describe the current condition of our world, our industry and, as a result, our company. While Natural Gas Services Group, Inc. is well positioned to progress through the present disruptions, the ambiguity in our business and industry has created unique challenges for our company and our stakeholders.

The COVID-19 pandemic had an acute, unprecedented impact on global energy demand in the first several months of this new decade. Combine that with the nearly simultaneous decision of Saudi Arabia, followed by others, to flood the market with oil and by March the world was drowning in oil. This oversupply led to a collapse in energy prices, including the extraordinary freefall in crude prices in April.

Such challenging market conditions immediately resulted in significantly reduced demand for oilfield services, as exploration and production companies cut production, rapidly eliminated activity, expenses and jobs, and swiftly took any action available in an attempt to remain solvent.

While business for NGS was certainly impacted, our compression assets are used to maintain production in existing wells, which provides some insulation from the rapid decline in oilfield activity.

However, the overall reduction in production combined with the uncertainty in future activity resulted in our keen focus on driving additional efficiency into our operations. We have also taken these challenging times to become even closer to our customers with a focus on providing efficient solutions to the challenges they face.

Looking back, 2019 was another year of solid growth for NGS. Total revenues grew approximately 20% to \$78.4 million. Rental revenues grew 19% to \$55.7 million and sales, service and maintenance revenues increased to \$21.7 million, a 23% increase. Our adjusted EBITDA (a non-GAAP financial measure) in 2019 was \$24.0 million, a 10% increase over 2018. Cash flow from operations in 2019, an important measure of financial strength, was \$29.4 million, a 24% improvement from the previous year.

While demand for all sizes and types of compression equipment has been pressured by the recent swoon in energy activity, the Company's evolution to focus on the large horsepower compression market has provided meaningful benefits. In 2019, we invested nearly \$64.0 million in new rental compression assets, over 90% of which was for large horsepower equipment, nearly all of which was committed to customers prior to fabrication.

While we aren't likely to spend meaningful capital on new equipment this year, when we do resume our capital program to meet demand, we will remain focused on the large horsepower segment as market dynamics remain favorable. The cost of larger horsepower equipment will continue to result in cash-constrained operators looking for opportunities to rent large compression equipment to conserve cash. In addition, the size and complexity of this compression equipment provides NGS with longer, higher margin contracts as well as the potential for profitable technical service agreements.

As part of our strategic efforts to refocus on larger horsepower, in 2019 we retired 327 smaller horsepower units totaling nearly 40,000 in horsepower. While profitable, the small horsepower market does not have the same growth potential of our larger horsepower offerings. A decline in demand, due to the long-term decline in natural gas prices, has reduced pricing power and margins. While we will continue to operate select small horsepower assets and maintain our position in the medium horsepower market, our future growth will be focused on larger horsepower offerings.

Our nearly \$70 million in 2019 capital expenditures was funded entirely through operating cash flow and existing cash on hand, allowing NGS to finish the year as one of the very few oilfield service (not just energy compression) companies, public or private, with a positive net cash position. Combined with a \$30 million (largely undrawn) line of credit, NGS has one of the strongest liquidity positions and balance sheets in the oilfield industry. The Company's ability to consistently generate positive cash flow across the economic cycle affords NGS a strong balance sheet, which becomes a meaningful competitive advantage for both intrinsic growth and other opportunities as the next industry expansion takes hold.

The impact of the COVID pandemic and the resulting economic dislocation is likely to linger through the balance of this year and into 2021. While we do expect some recovery in energy demand as we enter summer and begin to see a loosening of commercial restrictions, it is nearly impossible to predict both the rate and durability of the recovery. Regardless of the overall economic recovery, we expect our customers – domestic energy producers – will be very cautious in activity acceleration, a result of concerns over spending ahead of clear signs of renewed demand as well as restricted capital for growth based on liquidity challenges.

As we look to the future of our Company, we welcome Leslie Beyer as a member of the NGS Board of Directors. Leslie is president of the Petroleum Equipment and Services Association (PESA), the premier trade and advocacy group for the oilfield services and equipment sector. Her energy background with PESA and her prior role with the National Association of Manufacturers will be a valuable addition to NGS. We also acknowledge the service of Charles Curtis as his tenure as a director comes to an end. Charlie has been an invaluable member of the NGS Board for many years and has served as a trusted advisor and advocate for NGS and a friend to the entire NGS family. His counsel will be missed.

This year's proxy provides expanded discussion of the Company's Environmental, Social and Governance, or ESG, initiatives. In this discussion, we detail our continuing efforts to contribute to our industry and communities through new and expanded programs and actions. We look forward to continuing these initiatives and updates as we continue to work to be a leader in these important categories.

As we conclude, I want to thank the NGS team for their remarkable effort over the past year and, especially, for the dedication and willingness to go the extra mile in these challenging times. This exceptional group is what makes NGS prosper and provides the effort to make our Company a leading compression and energy services concern. Thank you.

In turn, the NGS family thanks all of its stakeholders: our customers, our vendors, and, you, our shareholders. We are here because of you and continue to thrive because of your confidence and your partnerships. We look forward to another year, one in which we rise above the challenges and create opportunities for mutual success.

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, August 13, 2020**

**The proxy statement and annual report to shareholders are available at  
[www.ngsgi.com](http://www.ngsgi.com) and [www.proxyvote.com](http://www.proxyvote.com)**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
To be held on Thursday, August 13, 2020**

**NOTICE IS HEREBY GIVEN** that the Annual Meeting of Shareholders of Natural Gas Services Group, Inc., a Colorado corporation (the “Company”), will be held at the 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705 on Thursday, August 13, 2020 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 2023, 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 2020; 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 June 9, 2020 are entitled to notice of and to vote at the meeting and at any adjournment(s) of the meeting. On that day, 13,461,717 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 2020.

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

June 15, 2020

/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, AUGUST 13, 2020**

**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, August 13, 2020, 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, 2019 is first being made available to shareholders beginning on or before June 19, 2020. This proxy statement, including the Notice of Annual Meeting, proxy card, and Annual Report on Form 10-K for the year ended December 31, 2019, 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 June 19, 2020, 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](http://www.ngsgi.com) and [www.proxyvote.com](http://www.proxyvote.com) on or before June 19, 2020. 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 2020 Annual Meeting of Shareholders, which will take place on Thursday, August 13, 2020. 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 2023, 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 2020; 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 and **FOR** the ratification of the appointment of Moss Adams LLP as our independent registered public accounting firm for 2020. 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](http://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 June 9, 2020, 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 13,461,717 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 2020 (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 LLP (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 James R. Lawrence, or their nominees or substitutes, will have the discretion to vote your shares on any additional matters that are properly presented for a vote at the meeting and at any adjournment or postponement that may take place. If, for any unforeseen reason, our nominee is not available as a candidate for Director, the persons named as the proxy holder will vote your proxy for another candidate or other candidates nominated by our Board.

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

A: Yes. For your proposal to be considered for inclusion in our proxy statement for next year's meeting, we must receive your written proposal no later than February 19, 2021. If we change the date of next year's meeting by more than 30 days from the date of this year's meeting, then the deadline is a reasonable time before we begin to print and send our proxy materials. You should also be aware that your proposal must comply with SEC regulations regarding shareholder proposals.

Similarly, for you to raise a proposal (including a Director nomination) from the floor at next year's meeting, we must receive a written notice of the proposal no later than May 5, 2021. If we change the date of next year's meeting by more than 30 days from the date of this year's meeting, then the deadline is a reasonable time before we begin to print and send our proxy materials.

**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](mailto: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 (commonly known as a “staggered” Board), each class to be as nearly equal in number as possible. At each annual meeting of shareholders, members of one of the classes, on a rotating basis, are elected for a three-year term. The authorized number of Directors is currently set at nine. We currently have five Directors serving on our Board. Our Board 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:

<b>Term Expiring at the 2020 Annual Meeting</b>	<b>Terms Expiring at the 2021 Annual Meeting</b>	<b>Terms Expiring at the 2022 Annual Meeting</b>
Leslie Shockley Beyer	David L. Bradshaw	John W. Chisholm
Stephen C. Taylor	William F. Hughes, Jr.	

Shareholders will be electing two Directors at the meeting. The Board is recommending Ms. Beyer for election and Mr. Taylor for re-election to the Board of Directors to serve a three year term expiring at the annual meeting of shareholders in 2023.

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 2020 Annual Meeting, is set forth below.

### **Nominees for Directors for Term to Expire in 2023**

#### ***Leslie Shockley Beyer***

Leslie Shockley Beyer, 44, joined our Board in June 2020. Ms. Beyer is President of the Petroleum Equipment & Services Association and has been since 2014, where she leads the development of PESA's programs and serves as the organization's primary advocate in support of the oilfield services and equipment sector. Her responsibilities also encompass the budgeting, forecasting and financial performance of the organization. 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, 66, has been President and Chief Executive Officer of Natural Gas Services Group since January 2005. He was elected as a Director of Natural Gas Services Group at the annual meeting of shareholders in June 2005. Effective January 1, 2006, Mr. Taylor was appointed Chairman of the Board of Directors. Immediately prior to joining Natural Gas Services Group, Mr. Taylor held the position of General Manager – US Operations for Trican Production Services, Inc. from 2002 through 2004. Mr. Taylor joined Halliburton Resource Management in 1976, becoming its Vice President – Operations in 1989. Beginning in 1993, he held multiple senior level management positions with Halliburton Energy Services until 2000 when he was elected Senior Vice President/Chief Operating Officer of Enventure Global Technology, LLC, a joint-venture deep water drilling technology company owned by Halliburton Company and Shell Oil Company. Mr. Taylor elected early retirement from Halliburton Company in 2002 to join Trican Production Services, Inc. Mr. Taylor holds a Bachelor of Science degree in Mechanical Engineering from Texas Tech University and a Master of Business Administration degree from the University of Texas at Austin.

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

### **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 Corporate Governance 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 Governance Committee shall consider all factors it deems relevant. Our Board will act on the Governance 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 Governance Committee's recommendation or Board action regarding whether to accept the resignation offer. If each member of the Governance 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 Directors Whose Term Expires in 2021**

#### ***David L. Bradshaw***

David L. Bradshaw, 65, 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 thirty 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.

***William F. Hughes, Jr.***

William F. Hughes Jr., 67, has served as a Director since December 2003. Mr. Hughes has over 30 years of experience in the engineering and construction industry as a Registered Civil Engineer and licensed building contractor. From 1974 to 1979, he served as an officer in the United States Air Force. From 1979 to 1986, he was a project design engineer for Cushman & Associates. From 1986 to 1996, he served as a Project Manager on a variety of public works and industrial construction projects. Since 1983, Mr. Hughes has been co-owner of The Whole Wheatery, LLC, a natural foods store located in Lancaster, California. Mr. Hughes holds a Bachelor of Science degree in Civil Engineering from the United States Air Force Academy and a Master of Science in Engineering from the University of California at Los Angeles.

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

Mr. Hughes' experience as the Chairman of the Compensation Committee has enabled him to develop the critical expertise required by the Board as it relates to compensation matters. His ability to lead the committee, deriving assistance and varied perspectives from our compensation consultants, and objectively weigh the requirements of the Company, shareholders and executives is invaluable.

**Continuing Director Whose Term Expires in 2022**

***John W. Chisholm***

John W. Chisholm, 65, was appointed as a Director of Natural Gas Services Group in December 2006 to fill a vacancy created by expanding the size of the Board from seven to eight Directors and was first elected as a Director of Natural Gas Services Group at the annual meeting of shareholders held in June 2007. Mr. Chisholm 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. He currently serves on the Editorial Advisory Board on Middle East Technology of the Oil & Gas Journal.

Mr. Chisholm brings significant natural resources experience to our Board, in connection with his background in supplying drilling and production related products and services to the oil, gas and mining industries, and his investment fund experience with mid-size energy service companies is an invaluable resource as the Company assesses its capital and liquidity needs. In addition Mr. Chisholm's experience as a board member and executive officer of a public company provides us with a wealth of leadership and management skills.

## THE BOARD OF DIRECTORS AND ITS COMMITTEES

Natural Gas Services Group's Board of Directors held eight meetings in 2019. 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, the Lead Director presides over these sessions; John W. Chisholm was recently appointed as our Lead Director in connection with the retirement of Charles G. Curtis, who served as our Lead Director during 2019 and until his retirement from the Board in June 2020.

We typically schedule a Board meeting in conjunction with our annual meeting of shareholders. Although we do not have a formal policy on the matter, we expect our Directors to attend each annual meeting, absent a valid reason, such as illness or an unavoidable schedule conflict. Last year, all of the individuals then serving as Directors attended our 2019 Annual Meeting of Shareholders.

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

### **Audit Committee**

The primary functions of our Audit Committee include:

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

The members of the Audit Committee are David L. Bradshaw (Chairman), Leslie Shockley Beyer (since June 2020), and William F. Hughes, Jr. Charles G. Curtis was a member of the Audit Committee during 2019 and until his retirement from the Board in June 2020. 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 Securities and Exchange Commission. The Audit Committee met eight times during the last fiscal year. The audit committee has also received from, and discussed with, BDO USA, LLP (our former auditor) 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. You can also view and print a copy of our Audit Committee Charter by clicking on the "Governance" tab at the Investor Relations page of our website at [www.ngsgi.com](http://www.ngsgi.com).

## Compensation Committee

The functions of our Compensation Committee include:

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

The Compensation Committee's policy is to offer the executive officers competitive compensation packages that will permit us to attract and retain individuals with superior abilities and to motivate and reward such individuals in an appropriate fashion in the long-term interests of Natural Gas Services Group and its shareholders. Currently, executive compensation is comprised of salary and cash bonuses and awards of long-term incentive opportunities in the form of restricted stock or restricted stock unit awards under the 2009 Restricted Stock/Unit Plan and the 2019 Equity Incentive Plan, as well as other long-term incentives payable in cash or stock.

The members of the Compensation Committee are William F. Hughes, Jr. (Chairman), Leslie Shockley Beyer (since June 2020), and John W. Chisholm. David L. Bradshaw was a member of Compensation Committee prior to June 2020. Our Board has determined that all of the members of the Compensation Committee are independent, as defined under the applicable NYSE rules and listing standards. During the last fiscal year there were four meetings of the Compensation Committee.

### *Compensation Committee Interlocks and Insider Participation*

The Compensation Committee members are not officers or employees of our company, and there is not, nor was there during fiscal 2019, 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. You can also view and print a copy of our Compensation Committee Charter by clicking on the "Governance" tab at the Investor Relations page of our website at [www.ngsgi.com](http://www.ngsgi.com).

## Governance and Personnel Development Committee

Our Governance and Personnel Development Committee primarily focuses on:

- generally overseeing the governance of the Board and its committees;
- interpreting the Governance Guidelines, the Code of Business Conduct and Ethics and other similar governance documents adopted by the Board;
- overseeing the evaluation of the Board and its committees; and
- ensuring appropriate Environmental, Social and Governance focused on environmental stewardship, our community and the continued safety of our employees and operations

The members of the Governance and Personnel Development Committee are John W. Chisholm (Chairman since June 2020, committee member prior to June 2020), David L. Bradshaw (since June 2020), and William F. Hughes, Jr. Charles G. Curtis was the Chairman of the Governance and Personnel Development Committee during 2019 and until his retirement from the Board in June 2020. Our Board has determined that each of the Governance and Personnel Development Committee members is independent, as defined under the applicable NYSE rules and listing standards. During the last fiscal year there were four meetings of the Governance and Personnel Development Committee.

Any shareholder may obtain free of charge a printed copy of our Governance Committee Charter by sending a written request to Investor Relations, Natural Gas Services Group, Inc., 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705. You can also view and print a copy of our Governance Committee Charter by clicking on the "Governance" tab at the Investor Relations page of our website at [www.ngsgi.com](http://www.ngsgi.com).



## Nominating Committee

The functions of our Nominating Committee include:

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

The members of the Nominating Committee are Leslie Shockley Beyer (Chairperson since June 2020), David L. Bradshaw, and John W. Chisholm (Chairman prior to June 2020, committee member since June 2020). Charles G. Curtis was a member of the Nominating Committee during 2019 and until his retirement from the Board in June 2020. 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. You can also view and print a copy of our Nominating Committee Charter by clicking on the “Governance” tab at the Investor Relations page of our website at [www.ngsg.com](http://www.ngsg.com). Our Nominating Committee does not have a diversity policy; however, as discussed below, the Committee’s goal is to nominate candidates who possess a range of experiences and backgrounds which will contribute to the board’s overall effectiveness in meeting its duties and forwarding the goals of our company.

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. While we have not adopted a formal policy, our 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 should forward the candidate’s name and information about the candidate’s qualifications to Natural Gas Services Group, Inc., Nominating Committee, 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705, Attn.: Leslie Shockley Beyer. Submissions must include sufficient biographical information concerning the recommended individual, including age, employment history for at least the past five years indicating employer’s names and description of the employer’s business, educational background and any other biographical information that would assist the Committee in determining the qualifications of the individual. The Committee will consider recommendations received by a date not later than 120 calendar days before the date our proxy statement was released to shareholders in connection with the prior year’s annual meeting for nomination at that annual meeting. The Committee will consider nominations received after that date at the annual meeting subsequent to the next annual meeting.

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

## Director Independence

The Board has determined that each of the following four members of the Board is “independent” within the meaning of applicable listing standards of the NYSE and under the standards, set forth in Exhibit A to our Governance and Personnel Development Charter, (“Governance Charter”) which are consistent with the NYSE listing standards: Leslie Shockley Beyer, David L. Bradshaw, John W. Chisholm, and William F. Hughes, Jr. Charles G. Curtis, who retired from the Board in June 2020, was also determined to be “independent” under these standards. A copy of Exhibit A to our Governance Charter is available at our website, [www.ngsg.com](http://www.ngsg.com), under the heading “Investor Relations-Governance.” 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.

## **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 both Chairman of the Board and our President and Chief Executive Officer ("CEO"). The Board believes this is the most effective Board leadership structure at the present time and believes that Mr. Taylor, in his role as Chairman/CEO, has the ability to execute on both our short-term and long-term strategies necessary for the challenging marketplace in which we compete. The independent Directors believe that Mr. Taylor's detailed and in-depth knowledge of the issues, opportunities and challenges facing us and our business make him the best qualified Director to develop agendas that ensure that the Board's time and attention are focused on the most critical matters. Further, as the individual with primary responsibility for managing day-to-day operations, Mr. Taylor is best positioned to chair regular Board meetings and ensure that key business issues and risks are brought to the attention of our Board and/or Audit Committee.

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

- All members of the Board are independent Directors except for Mr. Taylor.
- Each of the Board's standing committees, including the Audit, Compensation, Governance and Nominating Committees, are comprised of and chaired solely by non-employee Directors who meet the independence requirements under the NYSE listing standards and other governing laws and regulations. As noted above, these committees meet frequently.
- Review and determination of Mr. Taylor's compensation and performance remains within the purview of the Compensation Committee.
- The independent Directors continue to meet in executive sessions without management present to discuss the effectiveness of the company's management, the quality of the Board meetings and any other issues and concerns.

### *Lead Director*

To promote the independence of the Board and appropriate oversight of management and to demonstrate our commitment to strong corporate governance, the independent Directors designate an independent, non-employee Director to serve as our Lead Director. The Lead Director helps to facilitate free and open discussion and communication among the independent, 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](http://www.ngsgi.com). 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.

## **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, or “Code”, which is posted on our website at [www.ngsgi.com](http://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 our strategy for corporate governance. 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.

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 or via various public online platforms and meets with shareholders in person throughout the year. 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 2019, the Company estimates it met with approximately 80 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.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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.

### *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.

Specifically, NGS introduced and implemented the following technologies and programs in support of reducing our overall environmental impact:

- 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 system 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 an oil burner system which allows us to efficiently recycle waste oil into energy and heat capacity for our service facility.
- 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.

We incorporate our Health, Safety, Environment and Quality ("HSEQ") initiatives into these mandates. 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 wellbeing 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.

For our customers, we are focused on providing quality products and services through innovation and attention to detail.

#### *Governance and People Initiatives*

While we address details of our governance structure elsewhere in this proxy statement, it is important to note the commitment of our leadership team to key ESG principles. Our consistent focus on these tenets is an important indication of our commitment to the environment and our people. Both the Board and executive team have made a commitment to strive for continuous improvement in accountability and responsiveness as we know that our success is determined by the dedication and enthusiasm of our people.

We strive to offer all of our team members the opportunity to advance professionally through appropriate training and development programs. We work diligently to identify potential future leaders and provide opportunities for leadership and management skills development. We do so while working to develop a diverse team with diverse experience and backgrounds. Our leadership team, in coordination with our Board, will continue to strive to be an employer for which a broad spectrum of qualified people seek out as a leader in diversity and opportunity in our industry.

As part of these initiatives, NGS is pleased to nominate a female Director to its Board of Directors. The Board acknowledges the benefits of a broad spectrum of opinions and continues to espouse diversity in our business decisions.

#### *Social and Community Initiatives*

NGS believes in being a responsible corporate citizen in the communities in which we live and operate. We will continue to engage in philanthropy that supports our values of strong community cohesiveness and organizations that make our communities better places in which to live. Our work with the West Texas Food Bank, Meals on Wheels and Big Brothers, Big Sisters are examples of our commitment to community engagement.

In academia, we have worked closely with the Texas Tech University petroleum engineering development program, including executive stewardship and providing a complete gas compressor package to their training facility.

In addition to corporate involvement we want to encourage and empower our team members to engage in programs that improve their communities. We continue to offer our associates time and support to become involved in areas that enrich their lives by giving back to the communities in which they live.

The Board of Directors and leadership continuously consider initiatives that address corporate community responsibility.

### **ORDER OF THE SEC MODIFYING EXEMPTIONS FROM THE REPORTING AND PROXY DELIVERY REQUIREMENTS FOR PUBLIC COMPANIES**

On April 29, 2020, we filed a Current Report on Form 8-K with the SEC indicating that we were relying on the SEC's Order under Section 36 of the Securities Exchange Act of 1934, Modifying Exemptions from the Reporting and Proxy Delivery Requirements for Public Companies, dated March 25, 2020 (Release No. 34-88465) (the "Order"), extending the deadlines by up to 45 days for filing certain reports made under the Exchange Act. We relied on the Order to delay the filing of this Proxy Statement relating to the Annual Meeting, including the information omitted from our Annual Report on Form 10-K for the year ended December 31, 2019, pursuant to General Instruction G(3) of Form 10-K (the "Part III Information"), which we have included in this Proxy Statement, due to the circumstances related to the COVID-19 pandemic. As disclosed in the Current Report on Form 8-K filed on April 29, 2020, we have been following the recommendations of state and local health authorities to minimize the COVID-19 exposure risk for our corporate team members, including restricting access to our physical offices. These conditions have caused disruptions to the Company's operations requiring key personnel to devote considerable time and resources to respond to the emerging impacts to its business. As these changes diverted management resources, we were delayed in completing tasks necessary to prepare and file this Proxy Statement with the Part III Information by the original due date.

## 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, 65, 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.

James R. Lawrence, 50, joined the Company on October 1, 2019 and was appointed as our Vice President and Chief Financial Officer on November 16, 2019. Mr. J. Lawrence also serves as our Corporate Secretary. Mr. J. Lawrence has over 21 years of combined professional experience in the energy industry, investment banking and public accounting. Previously, he 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. 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. 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. 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. Lawrence is also licensed as a Certified Public Accountant in the state of Texas.

G. Larry Lawrence, 69, is our former Vice President, Chief Financial Officer, and Corporate Secretary after retiring from the Company on November 15, 2019. Mr. G.L. Lawrence was 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. Lawrence served as a director of Legacy Reserves Inc. and its predecessor, Legacy Reserves LP. Mr. Lawrence has a Bachelor of Arts in Accounting, with honors, from Dillard University.



## 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 2019 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 Vice President and Chief Financial Officer;  
James R. Hazlett, our Vice President-Technical Services; and  
G. Larry Lawrence, our former Vice President and Chief Financial Officer.

### *Introduction and Overview*

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

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

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

### *Compensation Philosophy and Objectives*

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

- rewards performance and skills necessary to advance our objectives and further the interests of our shareholders;
- is fair and reasonable and appropriately applied to each executive officer;
- is competitive with compensation programs offered by our competitors; and
- serves as an adequate retention tool in a competitive market.

The overall objectives of our compensation philosophy are to:

- provide a competitive level of current annual income that attracts and retains qualified executives at a reasonable cost to us;
- retain and motivate executives to accomplish our company goals;
- provide long-term incentive compensation opportunities at levels appropriate for the respective responsibilities and performance of each executive;
- align compensation and benefits with our business strategies and goals;

- encourage the application of a decision making process that takes into account both short-term and long-term risks and the 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.

Our 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.

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

## WHAT WE DO

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- ✓ **Fully independent compensation committee** - permits the establishment of competitive compensation practices and the measurement of actual performance in a conflict-of-interest free environment
- 

- ✓ **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
- 

- ✓ **Independent compensation consultant** - the Committee annually engages an independent compensation consultant to assist with its compensation reviews
- 

- ✓ **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
- 

- ✓ **Risk mitigation** - we have certain controls in place (signature authority, compensation structure, etc.) and an analysis is conducted on a quarterly basis
- 

- ✓ **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
- 

## WHAT WE DON'T DO

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- ✗ **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
- 

- ✗ **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
- 

- ✗ **No stock option exchanges or repricing** - we do not allow for stock option exchanges or the repricing of outstanding stock options without shareholder approval
- 

- ✗ **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
- 

- ✗ **No related party transactions** - we do not have any related party transactions
-

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; Shareholder Engagement**

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:

<b>Compensation and Governance Concerns</b>	<b>Responses to the Concerns</b>
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 charts on page 27 and the 2019 performance achievements below. The cash severance due to our CEO in connection with "good reason" events (this typically would be an involuntary occurrence) equates to approximately three years of total compensation based upon a year of good performance, which the Company has generally demonstrated.
Lack of Lead Independent Director	We have amended our Corporate Governance Guidelines to include a lead independent 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.

### *Fiscal Year 2019 Performance*

In 2019, our financial performance demonstrated positive results and stable financial condition that provided shareholder value in a challenging time for a service company in the oil and gas industry. Some of our financial and operational highlights include:

#### **Financial Highlights of 2019**

- Maintained a strong balance sheet, which has enabled the Company to weather the oil and gas activity downturns. Ended 2019 with \$11.6 million in cash and minimal debt (\$417,000) on the \$30 million revolving credit facility, providing the liquidity.
- Maintained a positive current (quick) ratio of 7.7 at year end 2019, an important metric for shareholders in an environment where liquidity can severely fluctuate.
  - Current (quick) ratio is a measure of liquidity that is defined as current assets/current liabilities.
- Generated revenue growth of 20% in 2019 compared to 2018.
  - Driven by higher rental revenue (18.7% increase) primarily due to a greater number of large horsepower units being rented as well as higher sales revenue (21.5% increase) primarily due to increased compressor sales.
- Generated Adjusted EBITDA growth of 10% in 2019 compared to 2018.
  - Adjusted EBITDA 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.
- Generated Adjusted EBITDA and cash flow from operations as a percentage of revenue of 31% and 37%, respectively.
- Continued to capitalize on robust demand for higher horsepower compression services by increasing compression rental equipment capital expenditures to \$63.7 million in 2019 compared to \$30.0 million in 2018.
- Funded total annual capital expenditures through operating cash flow and cash on hand, as no borrowing was required.
- Completed the construction of the Company's new corporate headquarters on a debt-free basis.

#### **Operational Highlights of 2019**

- Continued to execute on our strategic move into the high horsepower market (400HP to 1500HP) with significant new contracts, 90%-plus utilization and industry-leading rates and terms. Positioned NGS for further growth in our high horsepower segment with existing and new customers.
- Added 70,020 horsepower of high horsepower equipment to the rental fleet representing an additional 19% of total fleet horsepower.
- Continued to shift our focus to medium (greater than 125HP and less than 400HP) and high horsepower compression services, with more than 80% of our utilized horsepower in these two markets at year end 2019.
- Increased our rental fleet's horsepower utilization to 69.8% at year-end 2019 from 61.6% at year end 2018.
- In spite of strong activity in the Permian Basin during 2019, the Company was able to retain skilled and experienced employees due to its strong financial position, challenging work and a highly competitive benefit package.
- Finished construction of the Company's new corporate headquarters where the latest energy-efficient technologies designed for commercial buildings have been incorporated. This construction of our new headquarters lowered our annual cash rental expenses by at least \$300,000, and is expected to significantly reduce our future corporate moving expenses as well as our risk of future rent increases.

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

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

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

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 2019 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 2019, 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 2019.

### *Competitive Pay Analysis*

To evaluate the competitiveness of our Chief Executive Officer's base salary, determine total cash compensation (i.e., base salary plus target short-term cash incentive award), long-term incentive awards, and total direct compensation (i.e. base salary, target short-term cash incentive award, and long-term incentive awards), our Compensation Consultant provided the Committee with competitive pay information derived from a custom peer group (the "Custom 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 Custom Peer Group and the industry-specific published compensation surveys in order to provide the Committee with relevant comparable data.

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

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

The companies comprising the Custom Peer Group in our Compensation Consultant's compensation report used in connection with 2019 included:

## **NGS Custom Peer Group**

<b>Company Name</b>	<b>Company Description</b>
Hornbeck Offshore Services, Inc.	Hornbeck Offshore Services, Inc. provides marine transportation services to exploration and production, oilfield service, offshore construction and military customers.
Independence Contract Drilling, Inc.	Independence Contract Drilling, Inc. provides land-based contract drilling services for oil and natural gas producers in the United States.
Dawson Geophysical Company	Dawson Geophysical Company provides onshore seismic data acquisition and processing services in the United States.
CARBO Ceramics, Inc.	CARBO Ceramics Inc. is a technology and service company that provides engineered oilfield production enhancement, industrial performance enhancement, and environmental protection solutions.
ION Geophysical Company	ION Geophysical Corporation provides geophysical technology, services, and solutions for the global oil and gas industry.
CSI Compressco LP	CSI Compressco LP provides compression services and equipment for natural gas and oil production, gathering, transportation, processing, and storage.
RigNet, Inc.	RigNet, Inc. provides remote communications services for the oil and gas industry.
NCS Multistage Holdings, Inc.	NCS Multistage Holdings, Inc. provides engineered products and support services for oil and natural gas well completions and field development strategies in the United States, Canada, and internationally.
Solaris Oilfield Infrastructure, Inc.	Solaris Oilfield Infrastructure, Inc. manufactures and rents mobile proppant and chemical management systems to unload, store, and deliver proppant and chemicals at oil and natural gas well sites in the United States.
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.
Flotek Industries, Inc.	Flotek Industries, Inc. develops and supplies drilling, completion and production technologies and related services to the energy and mining industries in the U.S. and internationally.
Smart Sand, Inc.	Smart Sand, Inc., an integrated frac sand supply and services company, engages in the excavation, processing, and sale of sands or proppant for use in hydraulic fracturing operations in the oil and gas industry 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.



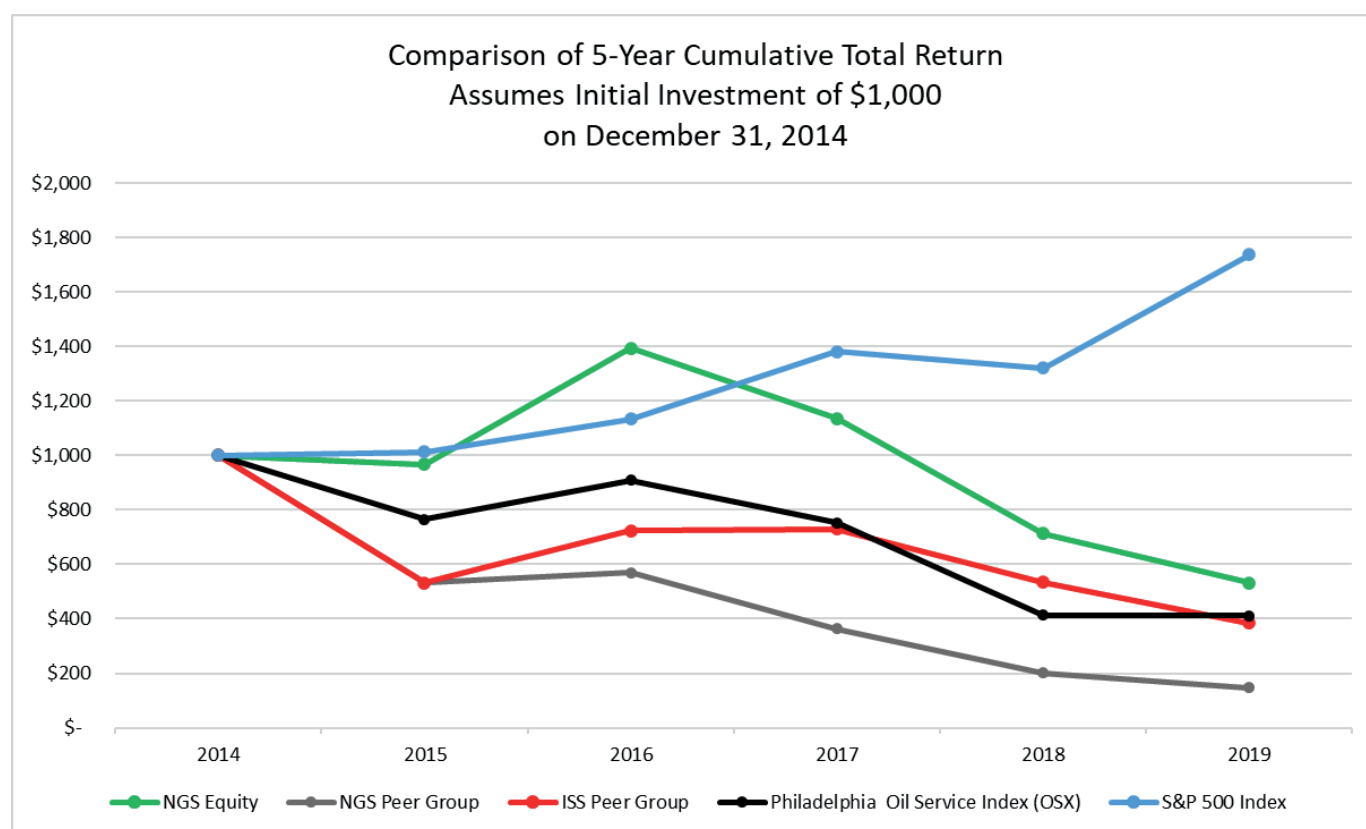
### Performance Comparison to Peer Group

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	(25.4)%	(61.9)%	(46.8)%
Median NGS Proxy Custom Peer Group	(27.2)%	(75.1)%	(79.9)%

As the foregoing table indicates, the Company has outperformed its peers in 2019 and over the past three and five years. Moreover, as the table below indicates, on an annualized basis, the Company has also outpaced its peer group over the same time period.

Annualized Total Shareholder Return			
Company/Peer Group	1-year Ann. TSR	3-year Ann. TSR	5-year Ann. TSR
Natural Gas Services Group	(25.4)%	(27.5)%	(11.9)%
Median NGS Proxy Custom Peer Group	(27.2)%	(37.2)%	(27.5)%



The chart above graphically describes the relative performance of NGS common stock over the past five years when compared to key benchmarks: the S&P 500 Index, the Philadelphia Oil Services Index, the Company’s current peer group and the most recent peer group selected by a proxy advisory firm. NGS has outperformed its peer group, the proxy advisory firm’s peer group and the Philadelphia Oil Services Index. NGS believes that comparing its stock performance to those benchmarks reflects the Company’s ability to navigate a tumultuous period for companies operating in the oilfield services sector.

### *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 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.

### *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, while fairly limited, presently provides enough diversity for us to link executive compensation to our short-term and long-term objectives. For instance, cash bonuses are tied to current year financial performance, while equity awards are closely linked to the long-term objective of increased market value of our common stock.

### *Base Salary*

We provide our executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. Each year the Committee receives base salary recommendations from our Chief Executive Officer for all of our executive officers (other than our Chief Executive Officer whose base salary is evaluated by the Committee on an annual basis).

In January 2019, the Compensation Committee reviewed the 2018 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 2019. Based on that review, the Committee increased the base salary of Mr. Taylor from \$594,100 to \$612,000, an increase of 3%.

With respect to our other three named executive officers other than our CEO, the base salary in 2019 of James Hazlett, our Vice President- Technical Services, was \$225,100 compared to \$218,545 in 2018. The base salary in 2019 of G. Larry Lawrence, our former Vice President and Chief Financial Officer who retired from the Company in November 2019, was \$210,460 compared to \$204,330 in 2018. The base salary of James R. Lawrence, our current Vice President and Chief Financial Officer who joined the Company in October 2019, was \$200,000.

Annual salary reviews for Mr. Taylor and Mr. Hazlett were conducted in April 2020 and, in light of current industry and economic conditions, the Compensation Committee elected to not increase the base salaries of these officers. Mr. J. Lawrence's base salary was reviewed and increased to \$210,000 in April 2020 due to his initial performance in his position.

### *Short-Term Incentives - Annual Incentive Bonus Plan*

In 2006, the Committee adopted an Annual Incentive Bonus Plan or, the “IBP,” that provides guidelines for the calculation of annual non-equity incentive based compensation in the form of cash bonuses to our executives, subject to Committee oversight and modification. The bonuses awarded under the IBP are short-term awards in recognition of the overall performance and efforts made by our executives during a particular year. Each year, the Committee approves the group of executives eligible to participate in the IBP and establishes target award opportunities for such executives. For 2019, 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 and Mr. G.L. Lawrence.

For 2019, 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.

#### **2019 Annual Incentive Bonus Plan**

2019 Executive Bonus Criteria	Revenue	Net income before taxes	Adjusted EBITDA <sup>(1)</sup>
Threshold achievement pays 75% of bonus	\$ 70,389,000	\$ 1,989,000	\$ 24,489,000
Target achievement pays 100% of bonus	72,844,000	3,157,000	25,657,000
Stretch achievement pays 125% of bonus	75,300,000	4,325,000	26,825,000

- (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 2019 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 2019 under our Annual Incentive Bonus Plan:

Criteria	Actual 2019 Performance	Target Metric	Stretch Metric	Eligible Bonus Payment Percentage	Bonus Component	Payable Bonus
Revenue	\$ 78,444,000	\$ 72,844,000	\$ 75,300,000	125 %	30 %	37.5 %
Net income before taxes <sup>(1)</sup>	752,000	3,157,000	4,325,000	— %	30 %	— %
Adjusted EBITDA <sup>(2)</sup>	24,035,000	25,657,000	26,825,000	— %	30 %	— %
Personal performance				— %	10 %	— %
Total						37.5 %

- (1) Actual 2019 net income before taxes excludes impairment of goodwill, increase in inventory allowance, and loss on retirement of rental equipment.
- (2) 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 2019, our executives received their financial metric payout on revenue, as the Company's \$78.4 million in revenue exceeded its stretch achievement level of \$75.3 million. The Company did not attain the aggressive annual performance measures on net income before taxes and Adjusted EBITDA set by the Board. Due to the current difficult economic and industry conditions, the Committee did not award any additional bonuses for personal performance during 2019 to Messrs. Taylor, G.L. Lawrence and Hazlett.

The following table summarizes the bonuses awarded under the IBP for 2019:

Name	Title	Base Salary	Max Bonus Eligibility	Bonus Base	Bonus Payout %	Bonus Payouts
Stephen C. Taylor	President & CEO	\$ 607,181	100 %	\$ 607,180	37.5 %	\$ 227,693
G. Larry Lawrence <sup>(1)</sup>	Former VP and CFO	210,460	50 %	105,230	31.2 %	32,871
James R. Hazlett	VP- Technical Services	224,596	50 %	112,298	37.5 %	42,112

- (1) Bonus payout percentage for Mr. G.L. Lawrence was prorated due to his retirement from the Company in November 2019.

#### *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 *2019 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 2020, the Compensation Committee reviewed the Company's 2019 TSR performance against its peers and determined that the Company's prior three-year performance was third 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 172% 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 175% (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 \$2,123,640. Due to the current difficult economic and industry conditions and the resulting impact on the Company's share price, the Compensation Committee reduced this preliminary total by 25% and awarded the following to Mr. Taylor on April 28, 2020:

- A long-term incentive award of \$1,061,820 (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 94,133 shares of restricted stock/units, which represents the balance of the total earned award. This was calculated by dividing \$1,061,820 by a deemed share price of \$11.28, which was two times the market closing price of \$5.64 on April 28, 2020. This calculation effectively reduced Mr. Taylor's earned restricted stock/unit award by 50% and his total long-term incentive awards by 25%.

In addition, upon Mr. Taylor's recommendation, the Committee approved a discretionary grant of 10,000 shares of restricted stock to Mr. Hazlett. Like Mr. Taylor's restricted stock grant, Mr. Hazlett's restricted stock grant also reflected a 50% reduction due to the current difficult economic and industry conditions and the resulting impact on the Company's share price.

All restricted stock grants were awarded under the Company's 2019 Equity Incentive Plan using the closing price of \$5.64 per share as of April 28, 2020, 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	\$ 530,910	94,133
James R. Hazlett, Vice President - Technical Services	\$ 56,400	10,000

In addition, upon joining the Company on October 1, 2019, Mr. J. Lawrence was issued 5,000 restricted shares. Using the closing price of \$12.26 per share as of October 1, 2019, these shares were valued at \$61,300.

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 36 and column (i) of the *"Grants of Plan-Based Awards for 2019"* on page 38.

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 Company's 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 54th percentile in 2019, 82nd percentile over the past three years and the 89th percentile over the past five years. Due to the current difficult economic and industry conditions and the resulting impact on the Company's share price, the Compensation Committee reduced the total earned compensation of Mr. Taylor, our President and Chief Executive Officer, by 19.4% in 2019 compared to 2018. Please see *"Summary Compensation Table"* on page 36. In 2019, Mr. Taylor's base compensation was in the 75th to 80th percentile among his peers and his total compensation was in the top decile of the peer group, which the Committee believes align with the Company's three- and five-year performance.

Due to significant changes in the Chief Executive Officer position in members of our peer group, comparable metrics may not be a reliable indicator of relative executive compensation and percentile rank for the current period. A member of our peer group eliminated the Chief Executive position during the past year, another operated with an Interim Chief Executive during the period and one other has yet to disclose its annual compensation information. As a result, 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*

Other than the restricted stock/unit awards we grant to our executives from time to time and the determinations made by the Committee as to specific target award opportunities under our IBP, the allocation of different amounts and types of compensation has not been a consideration for us. The Committee has not adopted a specific policy or target for the allocation between amounts or types of compensation. We believe that the use of stock awards in our compensation package will align the interests of our management and employees with our shareholders. Notwithstanding moderately increasing the use of stock-based compensation, we intend to maintain and continue our practice of having a simplified, but effective and competitive, compensation package.

### *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 36.

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 2019 Annual Meeting of Shareholders held in June 2019, we submitted a proposal to our shareholders regarding our executive compensation practices. The proposal was an advisory vote on the 2018 compensation awarded to our named executive officers (commonly known as a "say-on-pay" vote). Our shareholders approved our 2018 compensation with approximately 56% of the votes cast on the proposal voting in favor of our 2018 executive compensation practices.

NGS is committed to aligning our executive compensation practices with the best interests of our stakeholders, including the adoption of certain recommendations resulting from our shareholder engagement initiatives. Over the last four years, we have taken numerous remedial measures, 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.

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.

### **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 increasing stockholder value and to further align the interests of our Directors and key executives with the interests of our shareholders. Satisfaction of the policy requires that individuals attain and retain holdings of our common stock with a market value equal to the following multiple of the individual's compensation, defined as either a Director's cash retainer fee or an officer's base salary. Shares that count toward the minimum share ownership 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 corporate governance 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, 2019, 2018 and 2017.

**Summary Compensation Table**

Name and Principal Position (a)	Year (b)	Salary <sup>(3)</sup> (c)	Bonus <sup>(4)</sup> (d)	Stock Awards <sup>(5)</sup> (e)	Option Awards <sup>(6)</sup> (f)	Non-Equity Incentive Plan Compensation <sup>(7)</sup> (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings <sup>(8)</sup> (h)	All Other Compensation <sup>(9)</sup> (i)	Total (j)
Stephen C. Taylor, Chairman, President & CEO	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
	2017	574,215	4,090	2,079,385	—	144,200	—	15,246	2,817,136
James R. Hazlett, Vice President-Technical Services	2019	224,596	—	56,400	—	42,112	—	34,824	357,932
	2018	218,300	—	345,800	—	54,575	—	31,542	650,217
	2017	211,942	1,505	491,000	—	53,045	—	36,880	794,372
James R. Lawrence, VP & Chief Financial Officer <sup>(1)</sup>	2019	45,385	—	61,300	—	—	—	4,381	111,066
	2018	—	—	—	—	—	—	—	—
	2017	—	—	—	—	—	—	—	—
G. Larry Lawrence, Former VP & Chief Financial Officer <sup>(2)</sup>	2019	198,858	—	—	—	32,871	—	15,461	247,190
	2018	204,101	—	345,800	—	51,205	—	16,629	617,735
	2017	198,158	1,407	491,000	—	49,595	—	16,450	756,610

(1) Mr. J. Lawrence joined the Company on October 1, 2019 and was appointed as our Vice President and Chief Financial Officer on November 16, 2019.

(2) Mr. G.L. Lawrence retired from the Company on November 15, 2019.

(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. Mr. Taylor's 2019 award reflects a 25% reduction in his total long-term incentive awards and a 50% reduction in his restricted stock/unit award earned for the year. The awards earned in 2019 are discussed in further detail on page 30 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, 2019, 2018 and 2017, 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 29 under the caption "Short-Term Incentives - Annual Incentive Bonus Plan." For 2019, the amount in column (g) for Mr. Taylor also includes a long-term incentive award of \$1,061,820 (50% of his long-term incentive awards earned

for the year) payable in either cash or a variable number of shares at the discretion of the Compensation Committee. This fixed value award is subject to three-year vesting in equal, annual tranches. This award is discussed in further detail on page 30 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.

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	2019	\$ —	\$ 1,800	\$ 8,103	\$ 5,830	\$ 15,733
	2018	—	1,800	9,720	5,661	17,181
	2017	—	1,800	7,944	5,502	15,246
James R. Hazlett	2019	10,200	—	17,580	7,044	34,824
	2018	10,200	—	14,487	6,855	31,542
	2017	10,200	—	20,016	6,664	36,880
James R. Lawrence	2019	2,008	—	1,650	723	4,381
	2018	—	—	—	—	—
	2017	—	—	—	—	—
G. Larry Lawrence	2019	9,219	—	—	6,242	15,461
	2018	10,200	—	—	6,429	16,629
	2017	10,200	—	—	6,250	16,450
Total	2019	21,427	1,800	27,333	19,839	70,399
	2018	20,400	1,800	24,207	18,945	65,352
	2017	20,400	1,800	27,960	18,416	68,576

## 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 2019

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			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 (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target	Maximum (\$)	(#)	(#)		(l)
Stephen C. Taylor	4/28/2020 <sup>(1)</sup>	—	—	—	—	—	—	94,133	—	—	\$ 530,910
	4/28/2020 <sup>(2)</sup>	—	\$1,061,820	—	—	—	—	—	—	—	—
	3/29/2019 <sup>(3)</sup>	\$ 470,565	\$ 607,181	\$743,797	—	—	—	—	—	—	—
James R. Hazlett	4/28/2020 <sup>(1)</sup>	—	—	—	—	—	—	10,000	—	—	56,400
	3/29/2019 <sup>(3)</sup>	87,031	112,298	137,565	—	—	—	—	—	—	—
James R. Lawrence	10/1/2019 <sup>(4)</sup>	—	—	—	—	—	—	5,000	—	—	61,300
G. Larry Lawrence	3/29/2019 <sup>(3)</sup>	81,553	105,230	128,907	—	—	—	—	—	—	—

- (1) The amounts shown on these rows reflects the awards of restricted stock or units earned in 2019 that were issued in April 2020 to Messrs. Taylor and Hazlett.
- (2) Reflects a long-term incentive award made to Mr. Taylor of \$1,061,820 payable in either cash or a variable number of shares at the discretion of the Compensation Committee. This award was earned in 2019 and issued in April 2020. This fixed value award is subject to three-year vesting in equal, annual tranches. This award is discussed in further detail on page 30 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 29 under the caption "Short-Term Incentives - Annual Incentive Bonus Plan," the actual payouts in April 2020 that were earned in 2019 were as follows: Mr. Taylor - \$227,693, Mr. Hazlett - \$42,112, and Mr. G.L. Lawrence - \$32,871.
- (4) This restricted stock award was granted to Mr. J. Lawrence when he joined the Company on October 1, 2019.

### Annual Incentive Bonus Plan

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

The Committee establishes annual target levels for Natural Gas Services Group's total revenues, Adjusted EBITDA and net income before taxes and assigns a weight of 30% to each of these components. The executive's individual performance is assigned a weight of 10%. If Natural Gas Services Group achieves all of the target levels established by the Committee for total revenues, Adjusted EBITDA and net income before taxes for that year, and it is determined by the Committee that an executive is entitled to the full 10% weight assigned to individual performance, the executive is entitled to receive the maximum cash bonus amount for the executive for that year. If any one of the target levels is not met or it is determined that an executive is not entitled to the full 10% weight assigned to individual performance, the cash bonus award for the executive is reduced accordingly. Mr. Taylor, Mr. Hazlett and Mr. G.L. Lawrence received a stretch payout for the revenue component of the Plan in 2019, but did not receive any payout for the other components, including the personal performance component. More information regarding the Plan and the calculation of awards is provided under the caption "*Short-Term Incentives - Annual Incentive Bonus Plan*" on page 29.

### **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, 2019, stock options to purchase a total of 208,334 shares of our common stock were outstanding under the 1998 Stock Option Plan, as amended and restated, and a total of 337,503 shares of common stock were available at December 31, 2019 for future grants of stock options under the plan. Since the beginning of 2020, we have issued stock options to purchase a total of 5,000 shares of our common stock, but had 47,000 shares returned to the pool due to forfeitures. This left 379,503 shares available under the 1998 Stock Option Plan as of June 12, 2020.

### **2009 Restricted Stock/Unit Plan**

As of June 12, 2020, 52,250 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. 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 June 12, 2020, we have issued 298,535 shares under the 2019 Plan. Of these shares, 70,558 have vested and are no longer subject to any restrictions or possible forfeiture. Vested shares include shares that were withheld for taxes and, under

the terms of the 2019 Plan, cannot be re-issued. 227,977 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, 201,465 shares are available to be issued under the 2019 Plan as of June 12, 2020.

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 \$7.39. 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, 2019 and held by our Chief Executive Officer, Stephen C. Taylor, and each other named executive officer.

### Outstanding Equity Awards at 2019 Fiscal Year-End

Name	Option Awards					Stock Awards				
	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	—	—	—	—	—	23,488	\$ 287,963	—	—	
	—	—	—	—	—	56,467	692,285	—	—	
	—	—	—	—	—	131,674	1,614,323	—	—	
	30,000	—	—	\$ 19.90	1/18/2020	—	—	—	—	
	10,000	—	—	\$ 17.81	1/24/2021	—	—	—	—	
James R. Hazlett	—	—	—	—	—	6,667	81,737	—	—	
	—	—	—	—	—	13,334	163,475	—	—	
	—	—	—	—	—	20,000	245,200	—	—	
James R. Lawrence	—	—	—	—	—	5,000	61,300	—	—	

### Option Exercises and Stock Vested in 2019

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 2019 and the value realized on exercise of the stock options and (ii) stock awards.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting <sup>(1)</sup>	Value Realized on Vesting <sup>(1)</sup>
(a)	(b)	(c)	(d)	(e)
Stephen C. Taylor	53,825	\$448,120	21,264	\$ 384,170
James R. Hazlett	—	—	6,999	124,506
James R. Lawrence	—	—	—	—
G. Larry Lawrence	—	—	39,333	486,000

(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 - 30,457 shares for \$549,724; Mr. Hazlett - 6,333 shares for \$108,537; and Mr. G.L. Lawrence - 14,000 shares for \$194,254.

## 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 (\$) <sup>(1)</sup>	Registrant Contributions in Last FY (\$)	Aggregate Earnings in Last FY (\$)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last Fiscal Year End (\$)
Stephen C. Taylor	\$ 1,214,869	\$ 746,149	\$ —	\$ (11,140)	\$ —	\$ 1,949,878
G. Larry Lawrence	124,736	208,642	—	(35,105)	—	298,273
James R. Hazlett	169,571	125,225	—	(27,454)	—	267,342

(1) All contributions were from salary, bonus and stock deferrals in 2019. 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, 2019, 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 -- 211,629 shares
- James R. Hazlett -- 40,001 shares
- James R. Lawrence -- 5,000 shares

Each of these restricted stock awards could have become vested and issued without restrictions 18 months after December 31, 2019, 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, 2019, assuming the named executive officer had died or become disabled. The closing price of our common stock on December 31, 2019, was \$12.26 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, 2019 as follows: Mr. Taylor - \$2,594,572; Mr. Hazlett - \$490,412; and Mr. J. Lawrence - \$61,300.

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, 2019 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, 2019. 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)	\$	2,594,572	\$	2,594,572	\$ —
Severance		4,131,000		—	—
Medical, Dental, and Vision Benefits		27,368		—	—
Life Insurance Premiums		—		—	—
TOTAL	\$	6,752,940	\$	2,594,572	\$ —

- (1) See “*Compensation Agreements with Management*” beginning on page 47 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 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 (\$12.26) on December 31, 2019.

### 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 2019 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)	\$	71,082
Annual total compensation of Mr. Taylor	\$	2,443,337
Ratio of Mr. Taylor's annual total compensation to median annual total compensation of all other employees		34.4

The annual total compensation of Mr. Taylor is the total amount of his compensation presented in the 'Summary Compensation Table' on page 36. 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, 2019, the Company had 270 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, 2019, 2018 and 2017:

Name (a)	Year	Fees Earned Or Paid (\$) <sup>(1)</sup> (b)	Stock Awards (\$) <sup>(2)</sup> (c)	Option Awards (\$) (d)	Non-Equity Incentive Plan Compensation (\$) (e)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (f)	All Other Compensation (\$) (g)	Total (\$) (h)
Charles G. Curtis	2019	\$ 60,000	\$ 100,005	\$ —	\$ —	\$ —	\$ —	\$ 160,005
	2018	55,000	99,968	—	—	—	—	154,968
	2017	53,750	100,000	—	—	—	—	153,750
David L. Bradshaw	2019	65,000	100,005	—	—	—	—	165,005
	2018	65,000	99,968	—	—	—	—	164,968
	2017	63,750	100,000	—	—	—	—	163,750
John Chisholm	2019	55,000	100,005	—	—	—	—	155,005
	2018	55,000	99,968	—	—	—	—	154,968
	2017	53,750	100,000	—	—	—	—	153,750
William F. Hughes, Jr.	2019	65,000	100,005	—	—	—	—	165,005
	2018	65,000	99,968	—	—	—	—	164,968
	2017	63,750	100,000	—	—	—	—	163,750

(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 2019, 2018 and 2017. 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 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; 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; and on March 23, 2017, each of our non-employee Directors were granted 3,992 restricted shares/units at an issue price of \$25.05 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 2019, 2018 and 2017 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 \$5,000 annually to Mr. Curtis for his role as Lead Director.

In 2020, the quarterly fees for our Directors and Committee Chairs will remain unchanged from 2019. Mr. Chisholm was appointed as Lead Director in June 2020 when Mr. Curtis retired. Mr. Chisholm will be paid \$10,000 annually for his role as Lead Director.

### *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 2019, 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 2019 the amount of 5,784 restricted shares/units pursuant to the 2009 Plan, based upon the closing price of \$17.29 per share as of March 28, 2019, the day before the grant date. The restricted shares/units are subject to vesting whereby no shares will vest during the first year, and then upon the first anniversary date of the award, one-fourth of the shares will vest every three months so that all restricted shares/units will have vested within 21 months of the grant of the award. Notwithstanding the vesting schedule, all of the restricted shares/units are subject to acceleration and will immediately vest in the case of (i) death or disability of the recipient employee, or (ii) a change of control in the Company, as set forth in the Restricted Stock/Unit Plan.

On April 28, 2020, the Compensation Committee recommended and the Board approved additional awards of approximately \$100,000 for 2020. Due to the current difficult economic and industry conditions and the resulting impact on the Company's share price, the Compensation Committee reduced this preliminary total by 25% and awarded the following to each of the four independent Directors:

- An award of \$50,000 in cash (50% of the total) that vests one year from the date of grant; and
- An award of 4,432 shares of restricted stock/units, 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%. These awards of restricted stock/units 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 2019 was \$124,698. 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, we and Stephen C. Taylor entered into a new employment agreement (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 2019 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 June 9, 2020 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.

Name of Beneficial Owner and Position	Amount and Nature of Beneficial Ownership <sup>(1)</sup>	Percent of Class
<b>Directors &amp; Nominees Who Are Not Named Executive Officers</b>		
John W. Chisholm Current Director	21,180	*
Charles G. Curtis Former Director (Retired)	86,755 <sup>(2)</sup>	*
William F. Hughes, Jr. Current Director	159,042 <sup>(3)</sup>	1.18%
David L. Bradshaw Current Director	26,432	*
Leslie Shockley Beyer Director Nominee	—	*
<b>Named Executive Officers</b>		
Stephen C. Taylor Chief Executive Officer, Current Director & Director Nominee	569,052 <sup>(4)</sup>	4.23%
James R. Hazlett Vice President - Technical Services	91,314 <sup>(5)</sup>	*
James R. Lawrence Vice President and Chief Financial Officer	5,000	*
All Directors (and nominees) and executive officers as a group (7 persons)	958,775 <sup>(6)</sup>	7.12%

\* Less than one percent.

- (1) The number of shares listed includes all shares of common stock owned or indirectly owned by, which vest or may be acquired within 60 days of June 9, 2020 upon exercise of options held by the shareholder (or group), or which vest within 60 days of June 9, 2020, 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 June 9, 2020, none of the shares of common stock owned by our officers and Directors had been pledged as collateral to secure repayment of loans.
- (2) Does not include 3,546 shares of common stock which may be issued upon the vesting of restricted stock units.
- (3) Includes (i) 106,200 shares of common stock indirectly owned by Mr. Hughes through the William and Cheryl Hughes Family Trust and (ii) 9,861 shares of common stock held indirectly by a “rabbi trust,” the receipt of which has been deferred by Mr. Hughes to the Company’s Nonqualified Deferred Compensation Plan. Mr. and Mrs. Hughes are co-trustees of the William and Cheryl Hughes Family Trust and have shared voting and investment powers with respect to the shares held by the trust. Mr. and Mrs. Hughes are beneficiaries of the trust along with their two children. Does not include 6,591 shares of common stock which may be issued upon the vesting of restricted stock units.
- (4) Includes 93,025 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. Does not include 40,676 shares of common stock which may be issued upon the vesting of restricted stock units.
- (5) Includes 17,667 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. Does not include 1,333 shares of common stock which may be issued upon the vesting of restricted stock units.
- (6) Does not include 52,146 shares of common stock which may be issued upon the vesting of restricted stock units.

The following table sets forth information as of June 9, 2020 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 June 9, 2020 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	1,102,945 <sup>(1)</sup>	8.19%
Blackrock, Inc. 55 East 52 <sup>nd</sup> Street New York, New York 10055	1,056,680 <sup>(2)</sup>	7.85%
Franklin Resources, Inc. One Franklin Parkway San Mateo, California 94403	997,673 <sup>(3)</sup>	7.41%
FMR LLC 245 Summer Street Boston, Massachusetts 02210	841,940 <sup>(4)</sup>	6.25%
HITE Hedge Asset Management LLC 300 Crown Colony Drive, Suite 108 Quincy, Massachusetts 02169	707,088 <sup>(5)</sup>	5.25%
Renaissance Technologies LLC 800 Third Avenue New York, New York 10022	693,606 <sup>(6)</sup>	5.15%

- (1) As reported in Amendment No. 8 to Schedule 13G filed with the Securities and Exchange Commission in February 12, 2020. 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 1,061,479 of the shares reported in the table above.
- (2) As reported in Amendment No. 10 to Schedule 13G filed with the Securities and Exchange Commission on February 5, 2020. According to the filing, Blackrock, Inc. has sole dispositive power over all and sole voting power over 1,028,185 of the shares reported in the table above.
- (3) As reported in Amendment No. 2 to Schedule 13G filed with the Securities and Exchange Commission on February 3, 2020. 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 Schedule 13G filed with the Securities and Exchange Commission on February 7, 2020. According to the filing, FMR LLC has sole dispositive power over all and sole voting power over 797,140 of the shares reported in the table above.
- (5) As reported in Schedule 13G filed with the Securities and Exchange Commission on February 13, 2020. According to the filing, HITE Hedge Asset Management LLC has shared voting and dispositive power over the shares reported in the table above, with economic ownership being held by four investment companies.

- (6) As reported in Schedule 13G filed with the Securities and Exchange Commission on February 12, 2020. According to the filing, Renaissance Technologies LLC has sole voting and dispositive power over the shares reported in the table above.

### **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, 2019, 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 two late reports: (i) a Form 4 filed on January 27, 2019, which included nine transactions reported late, all of which related to the exempt exercise of a single stock option and sale of the underlying stock issued in connection with the exercise; and (ii) a Form 4 on February 28, 2019, which included three related transactions reported late 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.
- James R. Hazlett, our Vice President – Technical Services, filed two late reports: (i) a Form 4 filed on March 27, 2019, which included three related transactions reported late 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; and (ii) a Form 4 filed on April 25, 2019, which included one transaction relating to the sale of stock.
- James R. Lawrence, our current Vice President and Chief Financial Officer, filed a late Form 3 (initial report of ownership) due to difficulties in obtaining filing codes from the Securities and Exchange Commission.
- G. Larry Lawrence, our former Vice President and Chief Financial Officer who retired in November 2019, filed a late report on Form 4 on March 27, 2019, regarding three related transactions reported late 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.

## REPORT OF THE AUDIT COMMITTEE

The Audit Committee is responsible for overseeing the integrity of the Company's financial statements; financial reporting processes; compliance with legal and regulatory requirements; the independent registered public accounting firm qualifications and independence; and the performance of the Company's internal accounting functions and independent registered public accounting firm.

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

The Audit Committee has reviewed and discussed our audited financial statements with our management. The Audit Committee has also received from, and discussed with, BDO the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 1301 (Communications with Audit Committees). In addition, the Audit Committee has received the written disclosures and the letter from our independent registered public accounting firm required by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the Audit Committee has received the written disclosures and the letter from our independent registered public accounting firm matters pertaining to their independence.

The discussion referenced above included the Audit Committee's reviewing the deficiencies noted in our Annual Report on Form 10-K for the year ended December 31, 2019, related to a material weaknesses in internal control over financial reporting in connection with (i) accounting for income taxes and (ii) accounting and reporting of compressor "make-ready" jobs, as well as various other compressor maintenance jobs, that were incorrectly capitalized. The Company has begun remediation efforts and the Audit Committee will monitor the progress of such remediation until resolved.

Based upon the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for 2019 for filing with the Securities and Exchange Commission. See "*Proposal 3 - Ratification of Appointment of Independent Registered Accounting Firm*" on page 57 further information.

Respectfully submitted by the Audit Committee,

David L. Bradshaw, Chairman  
Leslie Shockley Beyer  
William F. Hughes, Jr.

## **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.**

### **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, 2020. 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 2020 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, 2020.**

#### **Principal Accountant Fees**

Our principal accountant for the fiscal years ended December 31, 2019, 2018 and 2017 was BDO USA, LLP.

#### *Audit Fees*

The aggregate fees billed for professional services rendered by BDO USA, LLP for the audit of our consolidated financial statements for the years ended December 31, 2019 and 2018, and the review of the financial statements on Forms 10-Q for the quarters in such years were approximately \$497,656 and \$469,526, respectively.

#### *Audit Related Fees*

During the years ended December 31, 2019 and 2018, there were no audit related fees.

#### *Tax Fees*

We were not billed by nor was there any tax work performed by BDO USA, LLP during the years ended December 31, 2019 and 2018.

#### *All Other Fees*

No other fees were billed by BDO USA, LLP, during our fiscal years ended December 31, 2019 and 2018, 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, 2019, our Audit Committee had not established pre-approval policies and procedures for the engagement of our principal accountant to render audit or non-audit services. However, in accordance with Section 10A(i) of the Exchange Act, our Audit Committee, as a whole, approves the engagement of our principal accountant prior to the accountant rendering audit or non-audit services.

Certain rules of the Securities and Exchange Commission provide that an auditor is not independent of an audit client if the services it provides to the client are not appropriately approved, subject, however, to a *de minimus* exception contained in the rules. The Audit Committee pre-approved all services provided by BDO USA, LLP in 2019 and the *de minimus* 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 2021 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 February 19, 2021 unless the date of our 2021 Annual Meeting of Shareholders is more than 30 days from the anniversary date of our 2020 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.

Rule 14a-4 of the SEC's proxy rules allows a company to use discretionary voting authority to vote on matters coming before an annual meeting of shareholders for the prior year's annual meeting of shareholders or the date specified by an overriding advance notice provision in the company's bylaws. Our bylaws do not contain such an advance notice provision. Accordingly, for our 2021 annual meeting, shareholders' written notices must be received by us before May 5, 2021 for any proposal a shareholder wishes to bring before the meeting but for which such shareholder does not seek to have a written proposal considered for inclusion in the proxy statement and form of proxy. If we change the date of next year's meeting by more than 30 days from the date of this year's meeting, then the deadline is a reasonable time before we begin to print and mail our proxy materials for the 2021 Annual Meeting of Shareholders. Your notice should be addressed to President, Natural Gas Services Group, Inc., 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705.

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



## **COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

Because of our relatively small size, to date we have not developed formal processes by which shareholders or other interested parties may communicate directly with Directors. Until formal procedures are developed and posted on our website ([www.ngsgi.com](http://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, 2019, were submitted to the SEC on March 31, 2020, 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, 2019, 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, 2019, 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](http://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

June 15, 2020  
Midland, Texas

/s/ Stephen C. Taylor  
\_\_\_\_\_  
Stephen C. Taylor Chairman of the Board, President and Chief Executive Officer

# FORM 10-K

2019 ANNUAL REPORT



**NATURAL GAS SERVICES GROUP, INC.**



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, 2019**

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, 2019 was approximately \$216,747,630 based on the closing price of the common stock on that date on the New York Stock Exchange.

At March 26, 2020, there were 13,382,569 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 25, 2020.

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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.



## 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 8.

#### The Company

We are a leading provider of natural gas compression services and equipment 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 regions 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 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 36% of rental revenues in 2019), 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, 2019, we had 2,304 natural gas compression units in our rental fleet with 429,650 horsepower. At year end 2019, we had 1,419 natural gas compression units in service with 299,836 horsepower, resulting in horsepower utilization of 69.8%. We added 82 units with approximately 74,000 horsepower to our fleet during 2019. Fifty-four of those units were 400 horsepower or larger (including 49 at 1,380 horsepower each), representing approximately 95% of the horsepower added.

Our revenue increased 19.8% to \$78.4 million from \$65.5 million for the year ended December 31, 2019 compared to the year ended December 31, 2018. This growth was largely the result of our rental revenue increasing 18.7% to \$56.7 million in 2019 from \$47.8 million in 2018. For the year ended December 31, 2019 the Company reported a net loss of \$13.9 million as compared to net loss of \$466,000 for the year ended December 31, 2018. In addition, the Company's adjusted EBITDA increased 10.5% to \$24.0 million in 2019 from \$21.8 million in 2018. 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, 2019, current assets were \$42.4 million, which included \$11.6 million of cash and cash equivalents. Current liabilities were \$5.5 million at year end 2019, which included the full amount outstanding on our line of credit of \$417,000. Our stockholders' equity as of December 31, 2019 was \$247.7 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, 2019, we had 2,304 natural gas compressors in our rental fleet totaling 429,650 horsepower. As of year end 2019, we had 1,419 natural gas compressors totaling 299,836 horsepower rented to 95 customers. The utilization rate of our rental fleet as of December 31, 2019 was 61.6%, while our horsepower utilization for the same period was 69.8%.

***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 76.8% of our sales revenue during 2019.
- ***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 18.2% of our sales revenue during 2019.
- ***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 36% of rental revenues in 2019), 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 months 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. In addition, recent events concerning OPEC and Russia resulted in Saudi Arabia significantly discounting the price of its crude oil, as well as Saudi Arabia and Russia significantly increasing their oil supply. These actions have led to significant weakness in oil prices and ensuing reductions of exploration and production company capital and operating budgets.

As of March 31, 2020, the full impact of the COVID-19 outbreak continues to evolve daily. 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 decline among our smaller horsepower and medium horsepower units during the remainder of 2020 after a minimal decline during the first quarter of 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. 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 and OPEC's actions will have a negative effect on its results of operations in 2020 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, 2019 and 2018 amounted to 36% of and 28% of our revenue, respectively. Sales and rental income to Oxy and Devon Energy Production, Inc. for the year ended December 31, 2017 amounted to 20% and 15% of our revenue. No other single customer accounted for more than 10% of our revenues in 2019, 2018 or 2017.

Oxy amounted to 35% of our accounts receivables as of December 31, 2019 and 26% of our accounts receivable as of December 31, 2018. No other customers amounted to more than 10% of our accounts receivable as of December 31, 2019 and 2018. 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, 2019, we had a sales backlog of approximately \$2.2 million compared to \$14.8 million as of December 31, 2018. 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, 2019, we had 270 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.

## **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 early stage of the COVID-19 outbreak. Nevertheless, given that we are in the early stage of the outbreak and the dynamic nature of these circumstances, we cannot reasonably predict or estimate the effects that the COVID-19 outbreak may have on our supply chain. 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](http://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.

## **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.



## 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. In addition, recent events concerning OPEC and Russia resulted in Saudi Arabia significantly discounting the price of its crude oil, as well as Saudi Arabia and Russia significantly increasing their oil supply. These actions have led 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 2020 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 will likely 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 recent significant reductions in the market prices of oil and natural gas, 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 materially eroded both 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 the first quarter of 2020. As a result, the demand for our natural gas compression services will be adversely affected. A reduction in demand could also 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 cyclicity 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.

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.

**Risks Associated With Our Company**

***A 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 1,419 compressors rented at December 31, 2019, 953 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 36% of our revenue for the year ended December 31, 2019, and the same customer accounted for an aggregate of approximately 28% of our revenue for the year ended December 31, 2018. At December 31, 2019, one 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 one or more of these significant 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 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 2020. 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 2020, 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.

Historically, we have funded our capital expenditures through cash flows from operations and borrowings under bank credit facilities. Although we believe that cash on hand, cash flows from our operations and/or bank borrowing from our line of credit will provide us with sufficient cash to fund our planned capital expenditures for 2020, 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.

Of our \$30.0 million line of credit, we owe \$417,000 as of December 31, 2019. All outstanding principal and unpaid interest is due on December 31, 2020. Although we believe that we will be able to renew our existing line of credit, or obtain a new line of credit with another lender, we can provide no assurance that we will be successful in renewing our line of credit or obtaining a new line. In addition, any renewal of our existing line of credit or creation of a new line of credit may be on terms less favorable than 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.

***Uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR after 2021 may adversely affect the market value of our current or future debt obligations***

Our variable rate debt is tied to the benchmark LIBOR. LIBOR is calculated by reference to a market for interbank lending, and it's based on increasingly fewer actual transactions. This increases the subjectivity of the LIBOR calculation process and increases the risk of manipulation. Actions by the regulators or law enforcement agencies, as well as ICE Benchmark Administration (the current administrator of LIBOR), may result in changes to the manner that LIBOR is determined or the establishment of alternative reference rates. For example, on July 27, 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021.

U.S. Dollar LIBOR will likely be replaced by the Secured Overnight Financing Rate ("SOFR") published by the Federal Reserve Bank of New York; however, the timing of this shift is currently unknown. SOFR is an overnight rate instead of a term rate, making SOFR an inexact replacement for LIBOR, and there is not an established process to create robust, forward-looking, SOFR term rates. Changing the benchmark rate for our debt instruments from LIBOR to SOFR requires calculations of a spread. Industry organizations are attempting to structure the spread calculation in a manner that minimizes the possibility of value transfer between counterparties, borrowers, and lenders by the transition, but there is no assurance that the calculated spread will be fair and accurate. At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be implemented. If LIBOR ceases to exist, we may need to renegotiate our line of credit to determine the interest rate to replace LIBOR with the new standard that is established. As such, the potential effect of any such event on our interest expense cannot yet be determined.

***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 of December 31, 2019, we had \$417,000 due under our Line of Credit agreement which allows us to borrow up to \$30.0 million provided we maintain certain collateral and borrowing base requirements. We believe that our current cash position and the amount available under the current line of credit are sufficient to meet our capital needs through 2020. However, if we were to materially increase our borrowings, it is possible that our business will not generate sufficient cash flow from operations to meet our debt service requirements and the payment of principal when due depending on the amount of borrowings on the agreement 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.

***Our current credit agreement contains covenants that limit our operating and financial flexibility and, if breached, could expose us to severe remedial provisions.***

Under the terms of our credit agreement, we must:

- comply with a minimum leverage ratio;
- comply with a commitment coverage ratio;
- not exceed specified levels of debt; and
- comply with limits on asset sales.

Our ability to meet the financial ratios and tests under our credit agreement 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 covenants could permit the bank to accelerate the debt so that it is immediately due and payable. If a breach occurred, no further borrowings would be available under our credit agreement. If we were unable to repay the debt, the bank could proceed against and foreclose on our assets, substantially all of which have been pledged as collateral to secure payment of our indebtedness.

***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. During this assessment for the year ended December 31, 2018, management noted that 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. Please see Item 9A, Controls and Procedures, Material Weaknesses in Internal Control over Financial Reporting. If management does not remediate these weaknesses in a timely manner, our business could be adversely affected and the price of our stock could decrease as a result.

***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. While an attack could potentially disrupt our activity, we do not house sensitive data that would affect the privacy of our customers, employees or business partners.

**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 2020, an aggregate of approximately 39.8% of the outstanding shares of our common stock are owned by six institutional investors, each of which owns more than 5% of our outstanding shares as of the date of their respective filings in February 2020. 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 6.6% of the outstanding shares of our common stock as of March 27, 2020, 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 could be 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.

***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, 2019:

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**

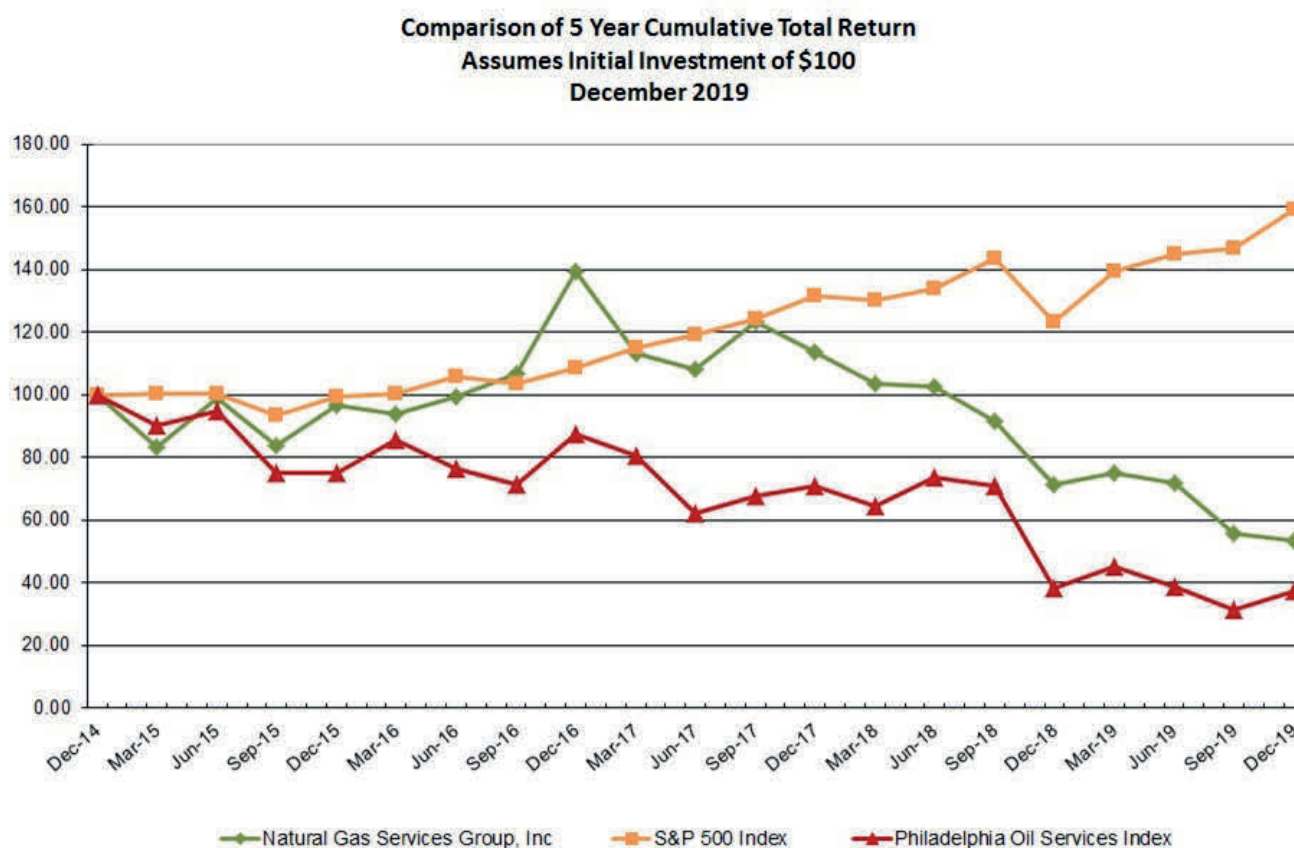
Not applicable.

## 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, 2019 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 27, 2020, the last reported sale price of our common stock as reported by the New York Stock Exchange was \$4.75 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, 2019:

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	208,334 <sup>(1)</sup>	\$ 23.67	337,503
Restricted Stock / Unit Plan <sup>(2)</sup>	123,092	\$ 23.99	—
2019 Equity Incentive Plan	156,674	\$ 17.13	328,173
Total	<u>488,100</u>		<u>665,676</u>

(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, 2019, will vest over the next two years.

## 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 will expire on September 30, 2020, subject to earlier termination of the program by the Board of Directors. 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. As of December 31, 2019, 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 the fourth quarter of 2019. As of December 31, 2019, 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, 2019.

## ITEM 6. SELECTED FINANCIAL DATA

In the table below, we provide you with selected historical financial data. We have derived this information from our audited financial statements for each of the years in the five-year period ended December 31, 2019. In the table we also present non-GAAP financial measures, Adjusted EBITDA and Adjusted Gross Margin, which we use in our business. These measures are not calculated or presented in accordance with GAAP. We explain these measures below and reconcile them to the most directly comparable financial measure calculated and presented in accordance with GAAP in "Non-GAAP Financial Measures." This information is only a summary and it is important that you read this information along with our audited financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Item 7 below, which discusses factors affecting the comparability of the information presented.

The selected financial information provided is not necessarily indicative of our future results of operations or financial performance.

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(in thousands, except per share amounts)				
STATEMENTS OF OPERATIONS AND OTHER INFORMATION:					
Revenues	\$ 78,444	\$ 65,478	\$ 67,693	\$ 71,654	\$ 95,919
Costs of revenues, exclusive of depreciation and amortization shown separately below	44,310	34,809	34,552	31,306	42,450
Selling, general and administrative expenses	10,710	9,096	10,081	9,011	10,989
Depreciation and amortization	23,268	22,080	21,316	21,796	22,758
Impairment of goodwill	10,039	—	—	—	—
Inventory allowance	3,758	—	273	566	205
Retirement of rental equipment	1,512	—	—	545	4,370
Operating (loss) income	(15,153)	(507)	1,471	8,430	15,147
Total other income, net	596	113	36	35	117
(Loss) Income before income taxes	(14,557)	(394)	1,507	8,465	15,264
Income tax benefit (expense)	693	(72)	18,287	(1,996)	(5,117)
Net (loss) income	<u>\$ (13,864)</u>	<u>\$ (466)</u>	<u>\$ 19,794</u>	<u>\$ 6,469</u>	<u>\$ 10,147</u>
(Loss) earnings per share:					
Basic	\$ (1.06)	\$ (0.04)	\$ 1.54	\$ 0.51	\$ 0.81
Diluted	\$ (1.06)	\$ (0.04)	\$ 1.51	\$ 0.50	\$ 0.79
Weighted average shares outstanding:					
Basic	13,114	12,965	12,831	12,702	12,567
Diluted	13,114	12,965	13,110	12,935	12,793
Adjusted EBITDA <sup>(1)</sup>	\$ 24,035	\$ 21,755	\$ 23,110	\$ 31,380	\$ 42,612
Adjusted gross margin <sup>(2)</sup>	\$ 34,134	\$ 30,669	\$ 33,141	\$ 40,348	\$ 53,469
Cash flows from:					
Operating Activities	\$ 29,412	\$ 23,689	\$ 17,499	\$ 31,785	\$ 41,566
Investing Activities	(70,175)	(40,285)	(12,838)	(3,414)	(12,270)
Financing Activities	(273)	16	453	191	55
Net change in cash and cash equivalents	\$ (41,036)	\$ (16,580)	\$ 5,114	\$ 28,562	\$ 29,351

	2019	2018	2017 <sup>(3)</sup>	2016	2015
BALANCE SHEET INFORMATION:	<i>(in thousands)</i>				
Current assets	\$ 42,415	\$ 94,921	\$ 108,143	\$ 95,359	\$ 68,074
Total assets	286,577	304,200	298,260	293,524	285,553
Long-term debt (including current portion)	417	417	417	417	417
Stockholders' equity	247,693	259,232	257,262	232,954	223,981

(1) Adjusted EBITDA is defined, reconciled to net income and discussed immediately below under "Non-GAAP Financial Measures."

(2) Adjusted Gross Margin is defined, reconciled to operating income and discussed immediately below under "Non-GAAP Financial Measures."

(3) As disclosed in Notes 2, 17 and 18 to our consolidated financial statements, we revised certain prior period financial information to reflect additional, immaterial operating costs and expenses. The impact of these revisions on our balance sheet for the year ended December 31, 2017, which is not included within our consolidated financial statements, was a decrease to current assets of \$83,000, a decrease to total assets of \$50,000, and a decrease to stockholders' equity of \$57,000.

## 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,				
	2019	2018	2017	2016	2015
	<i>(in thousands)</i>				
Net (loss) income	\$ (13,864)	\$ (466)	\$ 19,794	\$ 6,469	\$ 10,147
Interest expense	15	69	14	8	15
Income tax (benefit) expense	(693)	72	(18,287)	1,996	5,117
Depreciation and amortization	23,268	22,080	21,316	21,796	22,758
Impairment of goodwill	10,039	—	—	—	—
Inventory allowance	3,758	—	273	566	205
Retirement of rental equipment	1,512	—	—	545	4,370
Adjusted EBITDA	<u>\$ 24,035</u>	<u>\$ 21,755</u>	<u>\$ 23,110</u>	<u>\$ 31,380</u>	<u>\$ 42,612</u>

### *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,				
	2019	2018	2017	2016	2015
	<i>(in thousands)</i>				
Total revenue	\$ 78,444	\$ 65,478	\$ 67,693	\$ 71,654	\$ 95,919
Costs of revenue, exclusive of depreciation and amortization	(44,310)	(34,809)	(34,552)	(31,306)	(42,450)
Depreciation allocable to costs of revenue	(22,908)	(21,904)	(21,162)	(21,641)	(22,605)
Gross margin	11,226	8,765	11,979	18,707	30,864
Depreciation allocable to costs of revenue	22,908	21,904	21,162	21,641	22,605
Adjusted gross margin	<u>\$ 34,134</u>	<u>\$ 30,669</u>	<u>\$ 33,141</u>	<u>\$ 40,348</u>	<u>\$ 53,469</u>

## 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, 2019, 2018 and 2017. 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, 2019, we had 1,419 natural gas compressors totaling 299,836 horsepower rented to 95 customers, compared to 1,361 natural gas compressors totaling 230,089 horsepower rented to 94 customers at December 31, 2018. Of the 1,419 compressors rented at December 31, 2019, 953 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,		
	2019	2018	2017
	<i>(in thousands)</i>		
Rental	\$ 56,701	\$ 47,766	\$ 46,046
Sales	19,763	16,269	20,208
Service and maintenance	1,980	1,443	1,439
Total	<u>\$ 78,444</u>	<u>\$ 65,478</u>	<u>\$ 67,693</u>

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. Low crude oil and natural gas prices experienced throughout 2016 continued into mid-2017. In the latter half of 2017, we saw an increase in oil prices and activity that continued during most of 2018. 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 2020, 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 2020. 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 operating leases;
- 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. As a result, the Company has changed its accounting policy for revenue recognition as detailed below.

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.

In January 2019, the Company reviewed the estimated useful lives of its rental equipment. This review indicated that the actual lives of its larger horsepower rental equipment were longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. These units incorporate newer technology and heavier, more robust castings and forging, which allows for complete overhauls at longer cycles when compared to its older, lower horsepower units.

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.

The COVID-19 pandemic has caused a significant economic decline during the first quarter of 2020. In addition, the pandemic and recent actions by Saudi Arabia and Russia have resulted in a significant decline in oil prices during the same time period. If economic and industry conditions do not improve, an impairment review during 2020 could be triggered.

## *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, 2019 and 2018, 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, 2019 or 2018.

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 an increase of \$3.4 million in the inventory allowance reserve for costs that may not be recoverable in the future. Management later identified another \$408,000 of slow moving or obsolete inventory, which was written off. For the year ended December 31, 2019, inventory allowance and write-off totaled \$3.8 million. We ended 2019 with an inventory allowance balance of \$24,000.

The COVID-19 pandemic has caused a significant economic decline during the first quarter of 2020. In addition, the pandemic and recent actions by Saudi Arabia and Russia have resulted in a significant decline in oil prices during the same time period. If economic and industry conditions do not improve, an additional review of our inventory for excess and obsolete items during 2020 could be necessary.

## **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. In addition, recent events concerning OPEC and Russia resulted in Saudi Arabia

significantly discounting the price of its crude oil, as well as Saudi Arabia and Russia significantly increasing their oil supply. These actions have led to significant weakness in oil prices and ensuing reductions of exploration and production company capital and operating budgets.

As of March 31, 2020, the full impact of the COVID-19 outbreak continues to evolve daily. 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 decline among our smaller horsepower and medium horsepower units during the remainder of 2020 after a minimal decline during the first quarter of 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 and OPEC's actions will have a negative effect on its results of operations in 2020 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, 2019 Compared to the Year Ended December 31, 2018*

The table below shows our revenues and percentage of total revenues for each of our product lines for the years ended December 31, 2019 and 2018.

	Revenue			
	Year Ended December 31,			
	2019		2018	
	(dollars in thousands)			
Rental	\$ 56,701	72.3 %	\$ 47,766	73.0 %
Sales	19,763	25.2 %	16,269	24.8 %
Service & Maintenance	1,980	2.5 %	1,443	2.2 %
Total	<u>\$ 78,444</u>		<u>\$ 65,478</u>	

Total revenue increased to \$78.4 million from \$65.5 million, or 19.8%, for the year ended December 31, 2019 compared to 2018. This increase was mainly a result of higher rental revenue (18.7% increase) primarily due to a greater number of large horsepower units being rented as well as higher sales revenue (21.5% increase) primarily due to increased compressor sales.

Rental revenue increased to \$56.7 million from \$47.8 million for the year ended December 31, 2019 compared to 2018. As of December 31, 2019, we had 2,304 natural gas compressors in our rental fleet, down from 2,567 units at year end 2018 due the retirement of 327 units (with 39,758 horsepower) during the third quarter of 2019. Despite this decrease due to unit retirement, the Company's total unit horsepower increased by 7.7% to 429,650 at December 31, 2019 compared to 398,765 horsepower year end 2018, which reflects the addition of 54 high horsepower compressors with 70,020 horsepower to the Company's fleet during 2019. As of December 31, 2019, we had 1,419 natural gas compressors totaling 299,836 horsepower rented to 95 customers, compared to 1,361 natural gas compressors totaling 230,089 horsepower rented to 94 customers as of December 31, 2018. The rental fleet had a unit utilization as of December 31, 2019 and 2018, respectively, of 61.6% and 53.0% while our horsepower utilization for the same periods, respectively, was 69.8% and 57.7%. The rise in both utilizations was mainly the result of the rise in demand for our higher horsepower units as well as unit retirements during the third quarter of 2019.

Sales revenue increased to \$19.8 million from \$16.3 million for the year ended December 31, 2019, compared to 2018. This increase is largely attributable to an increase in compressor sales partially offset by a decrease in flare sales. Sales are subject to fluctuations in timing of industry activity related to capital projects and, as such, can vary substantially between periods.

During the third quarter of 2019, the Company examined various qualitative factors to determine if a quantitative goodwill impairment test was needed. After examining various qualitative factors, the Company performed a goodwill impairment analysis as of September 30, 2019. The analysis showed our carrying value of net assets exceeded its fair value, indicating that goodwill was fully impaired. Accordingly, the Company recorded a goodwill impairment charge of \$10.0 million during the third quarter of 2019.

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 an increase of \$3.4 million in the inventory allowance reserve for costs that may not be recoverable in the future. Management later identified another \$408,000 of slow moving or obsolete inventory, which was written off. For the year ended December 31, 2019, inventory allowance and write-off totaled \$3.8 million. We ended 2019 with an inventory allowance balance of \$24,000.

Given its concerns about the current industry backdrop, Company management determined during the third quarter of 2019 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 327 units should be retired from our rental fleet. Accordingly, we recorded a \$1.5 million loss on retirement of rental equipment during the year ended December 31, 2019.

Operating loss increased to \$15.2 million for the year ended December 31, 2019 compared to an operating loss of \$0.5 million for the year ended December 31, 2018. The increase in operating loss was mainly due to the inventory allowance and write-off, loss on the retirement of rental units, and a goodwill impairment charge that totaled \$15.3 million, partially offset by higher rental revenues and compressor sales.

Selling, general, and administrative expenses increased to \$10.7 million for the year ended December 31, 2019, as compared to \$9.1 million for 2018. This 17.7% increase was primarily the result of increases in officer bonuses (\$0.5 million), deferred compensation (\$0.4 million, most of which was non-cash), professional services (\$0.3 million), and stock compensation (\$0.2 million).

Depreciation and amortization expense increased to \$23.3 million from \$22.1 million, or 5.4%, for the year ended December 31, 2019, compared to 2018. The increase is the result of larger horsepower units being added to the fleet. We added 82 units (approximately 74,000 horsepower) to our fleet over the past twelve months. Fifty-four of those units were 400 horsepower or larger (including 49 at 1,380 horsepower), representing approximately 95% of the horsepower added.

Income tax benefit increased to \$0.7 million from a \$72,000 expense for the year ended December 31, 2019 compared to 2018. As shown in Note 9 to these financial statements, our effective tax rate for both years differs from the U.S. federal statutory rate of 21%. 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. The Company's 2018 income tax expense was impacted by the Company discovering a potentially uncertain tax position attributable deductibility of certain executive compensation expense for federal income tax purposes totaling approximately \$168,000, \$149,000 and \$230,000 for the years ended December 31, 2017, 2016 and 2015, respectively. As a result, in accordance with ASC Topic 740, during the fourth quarter of 2018, the Company recorded a tax adjustment of \$547,000 and accrued penalty and interest expense of \$55,000 attributable to the uncertain tax position. The Company filed amended tax returns during 2019 for the years ended 2015, 2016 and 2017 and has recognized certain offsetting deductions, thus removing the large majority of its uncertain tax position reserve as of December 31, 2019.

#### ***Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017***

The table below shows our revenue and percentage of total revenues for each of our product lines for the years ended December 31, 2018 and December 31, 2017.

	Revenue			
	Year Ended December 31,			
	2018		2017	
	(dollars in thousands)			
Rental	\$ 47,766	73.0 %	\$ 46,046	68.0 %
Sales	16,269	24.8 %	20,208	29.9 %
Service & Maintenance	1,443	2.2 %	1,439	2.1 %
Total	\$ 65,478		\$ 67,693	

Total revenue decreased to \$65.5 million from \$67.7 million, or 3.3%, for the year ended December 31, 2018, compared to 2017. This was the result of a 19.5% decrease in sales revenue, which was offset by a 3.7% increase in rental revenue and a 0.3% increase in service and maintenance revenue.

Rental revenue increased to \$47.8 million from \$46.0 million, or 3.7%, for the year ended December 31, 2018, compared to 2017. This increase is due to an increase in the average oil and natural prices for the year ended December 31, 2018, resulting in units being deployed, as well as a rise in the demand for our higher horsepower units. As of December 31, 2018, we had 2,572 natural gas compressors in our rental fleet totaling 398,765 horsepower, as compared to 2,546 natural gas compressors totaling 369,961 horsepower as of December 31, 2017. As of December 31, 2018, we had 1,361 natural gas compressors totaling 230,089 horsepower rented to 94 customers, compared to 1,259 natural gas compressors totaling 184,382 horsepower rented to 87 customers as of December 31, 2017. The rental fleet had a utilization of 53.0% as of December 31, 2018 as compared to 49.5% at December 31, 2017.

Sales revenue decreased to \$16.3 million from \$20.2 million, or 19.5%, for the year ended December 31, 2018, compared to 2017. Our sales activity can fluctuate depending on the demand from our customers' investments in non-conventional shale plays which require compression for producing natural gas and scheduling of projects in our fabrication facility. Due to economic uncertainty and continued tight credit markets, the energy industry continued to encounter reduced capital spending. While our strategy is to maintain our rental revenues so that they are a larger component of total revenue, we will continue to build and sell custom fabricated equipment. In support of this, we intend to cultivate new sales oriented customers and are actively pursuing small, medium and large reciprocating compressor fabrication projects, as well as, building rotary screw-type equipment of any size. Sales include: (1) compressor unit sales, (2) flare sales, (3) parts sales and (4) compressor rebuilds.

Operating income of \$1.5 million for the year ended December 31, 2017 decreased to a \$0.5 million loss for the year ended December 31, 2018. This decrease is attributed to a 6.4% drop in our rental margins, due to costs incurred in deploying units.

During the fourth quarter of 2018, management performed a review of our rental compressor units and determined there were 13 units fully depreciated in our rental fleet which needed to be retired, representing total horsepower of 1,360.

Selling, general, and administrative expenses decreased to \$9.1 million for the year ended December 31, 2018, as compared to \$10.1 million for 2017. This 9.8% decrease is primarily a result in a decrease in stock compensation of \$1.7 million.

Depreciation and amortization expense increased to \$22.1 million from \$21.3 million, or 3.6%, for the year ended December 31, 2018, compared to 2017. The increase is the result of larger horsepower units being added to the fleet. We added 31 units (approximately 29,508 horsepower) to our fleet over the past twelve months. Twenty-seven of these were 400 horsepower or larger, representing 99% of the horsepower added.

Income tax expense decreased to \$72,000 from a \$18.3 million benefit for the year ended December 31, 2018 compared to 2017. As discussed in Note 9 to these financial statements, during the fourth quarter of 2018, the Company discovered a potentially uncertain tax position attributable deductibility of certain executive compensation expense for federal income tax purposes aggregating approximately \$168,000, \$149,000, \$230,000 for the years ended December 31, 2017, 2016 and 2015, respectively. As a result, in accordance with ASC Topic 740, during the fourth quarter of 2018, the Company recorded a tax adjustment of \$547,000 and accrued penalty and interest expense of \$55,000 attributable to the uncertain tax position. In 2017, the \$18.3 million tax benefit was the result of the \$18.4 million income tax benefit recorded in connection with the 2017 Tax Act, due to the remeasurement of our deferred tax assets and liabilities at the new federal statutory rate.

### ***Adjusted Gross Margin Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018***

The table below shows our adjusted gross margin and related percentages for each of our product lines for the years ended December 31, 2019 and December 31, 2018. Adjusted gross margin is the difference between revenue and cost of revenues, exclusive of depreciation and amortization expense.

	Adjusted Gross Margin <sup>(1)</sup>			
	Year Ended December 31,			
	2019		2018	
	(dollars in thousands)			
Rental	\$ 29,118	51.4 %	\$ 25,906	54.2 %
Sales	3,666	18.5 %	3,705	22.8 %
Service & Maintenance	1,350	68.2 %	1,058	73.3 %
Total	\$ 34,134	43.5 %	\$ 30,669	46.8 %

(1) For a reconciliation of adjusted gross margin to its most directly comparable financial measure calculated and presented in accordance with GAAP, please read "Item 6. Selected Financial Data - Non-GAAP Financial Measures" in this Report.

Our overall adjusted gross margin percentage dropped to 43.5% for the year ended December 31, 2019 compared to 46.8% for the year ended December 31, 2018, exclusive of depreciation and amortization. Our drop in gross margins is mainly due to a 2.8% drop in rental revenue margins, which decreased to 51.4% for the year ended December 31, 2019 compared to 54.2% during 2018. This decrease was due to an increased bad debt allowance as well as increased maintenance and repair costs, particularly "make-ready" jobs on units being placed back into service. Sales margin decreased to 18.5% in 2019 from 22.8% in 2018 due to higher payroll and lower labor and overhead efficiency in our fabrication facilities. Third party service and maintenance margins decreased to 68.2% from 73.3% for the year ended December 31, 2019 compared to 2018. Service and maintenance only represents 2.5% of our revenue in 2019, providing minimal impact on our overall adjusted gross margin.

### ***Adjusted Gross Margin Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017***

The table below shows our adjusted gross margin and related percentages for each of our product lines for the years ended December 31, 2018 and December 31, 2017. Adjusted gross margin is the difference between revenue and cost of revenues, exclusive of depreciation and amortization expense.

	Adjusted Gross Margin <sup>(1)</sup>			
	Year Ended December 31,			
	2018		2017	
	(dollars in thousands)			
Rental	\$ 25,906	54.2 %	\$ 27,886	60.6 %
Sales	3,705	22.8 %	4,186	20.7 %
Service & Maintenance	1,058	73.3 %	1,069	74.3 %
Total	\$ 30,669	46.8 %	\$ 33,141	49.0 %

(1) For a reconciliation of adjusted gross margin to its most directly comparable financial measure calculated and presented in accordance with GAAP, please read "Item 6. Selected Financial Data - Non-GAAP Financial Measures" in this Report.

The overall adjusted gross margin percentage dropped to 46.8% for the year ended December 31, 2018 compared to 49.0% for the year ended December 31, 2017, exclusive of depreciation and amortization. Our drop in gross margins is mainly due to the drop in rental revenue margins due to costs incurred in deploying units. Rental margins decreased to 54.2% for the year ended December 31, 2018 compared to 60.6% during 2017. Sales margin increased to 22.8% from 20.7% for the year ended 2018 compared to 2017. Third party service and maintenance margins decreased to 73.3% for the year ended December 31, 2018 compared to 74.3% in 2017. Service and maintenance represents 2.2% of our revenue in 2018, providing minimal impact on our overall adjusted gross margin.



## Liquidity and Capital Resources

Our working capital positions as of December 31, 2019 and 2018 are set forth below.

	<b>As of December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<i>(in thousands)</i>	
Current Assets:		
Cash and cash equivalents	\$ 11,592	\$ 52,628
Trade accounts receivable, net	9,106	7,219
Inventory, net	21,080	30,190
Prepaid income taxes	40	3,188
Prepaid expenses and other	597	1,696
Total current assets	42,415	94,921
Current Liabilities:		
Accounts payable	\$ 1,975	\$ 2,122
Accrued liabilities	2,287	8,743
Line of credit	417	—
Current operating leases	189	—
Deferred income	640	81
Total current liabilities	5,508	10,946
Net working capital	\$ 36,907	\$ 83,975

For the year ended December 31, 2019, we invested approximately \$69.9 million in rental equipment, property and other equipment. During the year, the Company added \$63.7 million in new equipment to our rental fleet, \$3.8 million in payments related to the construction of our new corporate office, and \$2.4 million in vehicles, office furniture 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 \$2.7 million during 2019. We financed our investment in rental equipment, property and other equipment with cash on hand during 2019.

### *Cash flows*

At December 31, 2019, we had cash and cash equivalents of \$11.6 million compared to \$52.6 million at year end 2018. Our cash flow from operations of \$29.4 million was offset by capital expenditures of \$69.9 million during 2019. We also had working capital of \$36.9 million at December 31, 2019 compared to \$84.0 million at December 31, 2018. On December 31, 2019 and 2018, 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 \$29.4 million during 2019 compared \$23.7 million during 2018. Our cash flow from operating activities of \$29.4 million was primarily the result adding back non-cash items of depreciation of \$23.3 million, a goodwill impairment charge of \$10.0 million, an increased inventory allowance and write-off of \$3.8 million, stock-based compensation of \$2.6 million, a loss on retirement of rental equipment of \$1.5 million, a bad debt allowance of \$0.7 million, and a net positive change in working capital and various other items of \$2.1 million. These positive impacts were partially offset by a net loss of \$13.9 million and a decrease in cash flows related to a reduction in deferred income taxes of \$0.7 million.

At December 31, 2018, we had cash and cash equivalents of \$52.6 million, working capital of \$84.0 million and total debt of \$417,000, under our credit agreement which is due in 2020. Our cash and cash equivalents decreased from 2017, 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 \$23.7 million during 2018. This was primarily from a net loss of \$0.5 million and non-cash items of depreciation and amortization of \$22.1 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.

## Contractual Obligations and Commitments

We have contractual obligations and commitments that affect our results of operations, financial condition and liquidity. The following table is a summary of our significant cash contractual obligations (in thousands):

Cash Contractual Obligations	2020	2021	2022	2023	2024	Thereafter	Total
Line of credit	\$ 417	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 417
Interest on line of credit	17	—	—	—	—	—	17
Purchase obligations	250	250	160	—	—	—	660
Lease liabilities (including interest)	208	172	46	38	38	168	670
Other long term liabilities	—	—	41	—	—	—	41
Total	<u>\$ 892</u>	<u>\$ 422</u>	<u>\$ 247</u>	<u>\$ 38</u>	<u>\$ 38</u>	<u>\$ 168</u>	<u>\$ 1,805</u>

The Company also has a remaining contractual obligation related to the construction of a new corporate office of approximately \$375,000, which we intend to finance with cash on hand. Construction of a new office began in late 2017 and was completed in 2019.

## Senior Bank Borrowings

We have a senior secured revolving credit agreement the ("Amended Credit Agreement") with JP Morgan Chase Bank, N.A (the "Lender") with an aggregate commitment of \$30 million, subject to collateral availability. We also have a right to request from the Lender, on an uncommitted basis, an increase of up to \$20 million on the aggregate commitment (which could potentially increase the commitment amount to \$50 million).

**Borrowing Base.** At any time before the maturity of the Amended Credit Agreement, we may draw, repay and re-borrow amounts available under the borrowing base up to the maximum aggregate availability discussed above. Generally, the borrowing base equals 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") may adjust the borrowing base components if material deviations in the collateral are discovered in future audits of the collateral.

**Interest and Fees.** Under the terms of the Amended Credit Agreement, we have 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 may 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 is payable monthly on outstanding principal amounts, provided that accrued interest on LIBOR-based loans is payable at the end of each interest period, but in no event less frequently than quarterly. In addition, fees and expenses are 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 is December 31, 2020, at which time all amounts borrowed under the agreement will be due and outstanding letters of credit must be cash collateralized. The agreement may be terminated early upon our request or the occurrence of an event of default.

**Security.** The obligations under the Amended Credit Agreement are secured by a first priority lien on all of our inventory and accounts and leases 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 contains customary representations and warranties, as well as covenants which, among other things, limit 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 have certain financial covenants that require 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 contains customary events of default for credit facilities of this size and type, and includes, without limitation, payment defaults; defaults in performance of covenants or other agreements contained in the transaction 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 agreement. Obligations under the Amended Credit Agreement may be accelerated upon the occurrence of an event of default.

As of December 31, 2019, we were in compliance with all covenants in our Amended Credit Agreement. A default under our Amended Credit Agreement could trigger the acceleration of our bank debt so that it is immediately due and payable. Such default would have a material adverse effect on our liquidity, financial position and operations if we were to borrow a significant amount under our facility.

### **Components of Our Principal Capital Expenditures**

Capital expenditures for the three years ended December 31:

Expenditure Category	2019	2018	2017
	<i>(in thousands)</i>		
Rental equipment and property and equipment	\$ 69,938	\$ 40,065	\$ 13,536

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 2020. 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 Note 19 of our Consolidated Financial Statements and 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, 2019, we have an off-balance sheet arrangement and transaction. We do not believe that this arrangement is reasonably likely to materially affect our liquidity or availability of, or requirements for, capital resources.

We entered into a purchase agreement with a vendor in July 2008 pursuant to which we agreed to purchase up to \$4.8 million of our paint and coating requirements exclusively from the vendor. In connection with the execution of the agreement, the vendor paid us a \$300,000 fee which is considered to be a discount toward future purchases from the vendor. As of December 31, 2019, we had met \$4.1 million of this obligation. The \$300,000 payment we received is recorded as a long-term liability and will decrease as the purchase commitment is fulfilled. The long-term liability remaining as of December 31, 2019 was \$41,000.

### **Recently Issued Accounting Pronouncements**

See Notes to Consolidated Financial Statements on page F-12.

### **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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

### **Commodity Risk**

Our commodity risk exposure is the pricing applicable primarily to oil production and to lesser extent natural gas production. Realized commodity prices received for such production are primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to natural gas. Depending on the market prices of oil and natural gas, companies exploring for such resources may cancel or curtail their drilling programs, thereby reducing demand for our equipment and services.

### **Financial Instruments and Debt Maturities**

Our financial instruments consist of cash and cash equivalents, trade receivables, accounts payable and our line of credit. The carrying amounts of cash and cash equivalents, trade receivables, and accounts payable approximate fair value because of the short-term nature of the instruments. The fair value of our bank borrowings approximate the carrying amounts as of December 31, 2019 and 2018, and were determined based upon interest rates currently available to us.

### **Customer Credit Risk**

We are exposed to the risk of financial non-performance by our customers. Our ability to collect on rentals and sales to our customers is dependent on the liquidity of our customer base. To manage customer credit risk, we monitor credit ratings of our customers. 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. At December 31, 2019, we had one customer that accounted for a total of approximately 35% of our accounts receivable.

## **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, 2019, pursuant to Exchange Act Rule 13a-15. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily applies its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the President and Chief Executive Officer and our Vice President and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective due to material

weaknesses in internal control over financial reporting discussed below in Management's Annual Report on Internal Control Over Financial Reporting.

### **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, 2019. 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 not effective as of December 31, 2019, due to the material weaknesses in our internal control over financial reporting discussed 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. Nevertheless, after testing, our improved controls were not considered remediated at year end 2019, so further changes will need to be implemented. Management expects this material weakness to be remediated by the end of 2020.

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. As detailed in Notes 2, 17 and 18 of the Company's financial statements for the year ended December 31, 2019 in this Annual Report on Form 10-K, the Company has revised its prior period financial statements to reflect these additional operating costs and expenses.

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 plans to address the control deficiency that led to this material weakness during 2019. Our plan is to perform an in-depth review over controls regarding reporting of "make-ready" and other compressor maintenance jobs. This review may involve external experts. Management expect this material weakness to be remediated by the end of 2020.

### **Report Over Internal Controls**

Pursuant to the Section 404 of the Sarbanes-Oxley Act of 2002, we have included a report of management's assessment of the effectiveness of our internal controls as part of this annual report on Form 10-K for the fiscal year December 31, 2019. BDO USA, LLP, our independent registered public accounting firm, has issued an attestation report dated March 31, 2020 on the effectiveness of internal control over financial reporting on page 40 of this report.

### **Changes in Internal Control Over Financial Reporting**

Except for the control deficiencies discussed, there were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2019, 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.

## Report of Independent Registered Public Accounting Firm

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

### Opinion on Internal Control over Financial Reporting

We have audited Natural Gas Services Group, Inc.'s (the "Company") 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 (the "COSO criteria"). In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria. We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes, and our report dated March 31, 2020 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 a company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses regarding management's failure to design and maintain controls over accounting for income taxes, as well as accounting for "make-ready" jobs and various other compressor maintenance jobs, has been identified and described in management's assessment. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 financial statements, and this report does not affect our report dated March 31, 2020 on those financial statements.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP  
Austin, Texas  
March 31, 2020

### **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, 2019 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](http://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, 2019 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, 2019 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, 2019 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, 2019 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:

<u>Exhibit No.</u>	<u>Description</u>
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	Lease Agreement, dated January 9, 2018, between WNB Tower, LTD and Natural Gas Services Group, Inc. (Incorporated by reference to Exhibit 10.15 of the Registrant's Form 10-K for the fiscal year ended December 31, 2017 and filed with the Securities and Exchange Commission on March 9, 2018.)
10.2	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.)
10.3	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.)
10.4	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.)
10.5	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.)
10.6	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.)
10.7	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.)
10.8	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.)
10.9	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.)
10.10	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.)

- 10.11 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
- \*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.

Date: March 31, 2020

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
<u>/s/ Stephen C. Taylor</u> Stephen C. Taylor	Chairman of the Board of Directors, Chief Executive Officer and President (Principal Executive Officer)	March 31, 2020
<u>/s/ James R. Lawrence</u> James R. Lawrence	Vice President and Chief Financial Officer (Principal Accounting Officer)	March 31, 2020
<u>/s/ Charles G. Curtis</u> Charles G. Curtis	Director	March 31, 2020
<u>/s/ William F. Hughes, Jr.</u> William F. Hughes, Jr.	Director	March 31, 2020
<u>/s/ David L. Bradshaw</u> David L. Bradshaw	Director	March 31, 2020
<u>/s/ John W. Chisholm</u> John W. Chisholm	Director	March 31, 2020

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## **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 sheets of Natural Gas Services Group, Inc. (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the three years in the period 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period 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 since 2010.

Austin, Texas  
March 31, 2020

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 11,592	\$ 52,628
Trade accounts receivable, net of allowance for doubtful accounts of \$918 and \$291, respectively	9,106	7,219
Inventory	21,080	30,190
Prepaid income taxes	40	3,188
Prepaid expenses and other	597	1,696
Total current assets	42,415	94,921
Long-Term Inventory, net of allowance for obsolescence of \$37 and \$24, respectively	1,068	3,980
Rental equipment, net of accumulated depreciation of \$162,348 and \$165,459, respectively	217,742	176,106
Property and equipment, net of accumulated depreciation of \$12,847 and \$11,570, respectively	21,869	16,644
Right of use assets - operating leases, net of accumulated amortization \$158	604	—
Goodwill	—	10,039
Intangibles, net of accumulated amortization of \$1,883 and \$1,758, respectively	1,276	1,401
Other assets	1,603	1,109
Total assets	<u>\$ 286,577</u>	<u>\$ 304,200</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 1,975	\$ 2,122
Accrued liabilities	2,287	8,743
Line of credit	417	—
Current operating leases	189	—
Deferred income	640	81
Total current liabilities	5,508	10,946
Line of credit	—	417
Deferred income tax liability	31,243	31,906
Long-term operating leases	415	—
Other long-term liabilities	1,718	1,699
Total liabilities	38,884	44,968
Commitments and contingencies (Notes 5, 16 and 19)		
<b>Stockholders' Equity:</b>		
Preferred stock, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, 30,000 shares authorized, par value \$0.01; 13,178 and 13,005 shares issued, respectively	132	130
Additional paid-in capital	110,573	107,760
Retained earnings	137,478	151,342
Treasury shares, at cost, 38 shares	(490)	—
Total stockholders' equity	247,693	259,232
Total liabilities and stockholders' equity	<u>\$ 286,577</u>	<u>\$ 304,200</u>

See accompanying notes to these consolidated financial statements.

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

	<b>For the Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Revenue:</b>			
Rental income	\$ 56,701	\$ 47,766	\$ 46,046
Sales	19,763	16,269	20,208
Service and maintenance income	1,980	1,443	1,439
Total revenue	78,444	65,478	67,693
<b>Operating costs and expenses:</b>			
Cost of rentals, exclusive of depreciation stated separately below	27,583	21,860	18,160
Cost of sales, exclusive of depreciation stated separately below	16,097	12,564	16,022
Cost of service and maintenance, exclusive of depreciation stated separately below	630	385	370
Selling, general and administrative expenses	10,710	9,096	10,081
Depreciation and amortization	23,268	22,080	21,316
Impairment of goodwill	10,039	—	—
Inventory allowance	3,758	—	273
Retirement of rental equipment	1,512	—	—
Total operating costs and expenses	93,597	65,985	66,222
<b>Operating (loss) income</b>	(15,153)	(507)	1,471
<b>Other income (expense):</b>			
Interest expense	(15)	(69)	(14)
Other income	611	182	50
Total other income, net	596	113	36
<b>(Loss) income before income taxes:</b>	(14,557)	(394)	1,507
(Provision for) benefit from income taxes:			
Current	31	242	(3,288)
Deferred	662	(314)	21,575
Total income tax benefit (expense)	693	(72)	18,287
<b>Net (loss) income</b>	<u>\$ (13,864)</u>	<u>\$ (466)</u>	<u>\$ 19,794</u>
<b>(Loss) earnings per share:</b>			
Basic	\$ (1.06)	\$ (0.04)	\$ 1.54
Diluted	\$ (1.06)	\$ (0.04)	\$ 1.51
<b>Weighted average shares outstanding:</b>			
Basic	13,114	12,965	12,831
Diluted	13,114	12,965	13,110

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 Paid-In Capital	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	Shares	Amount			Shares	Amount	
BALANCES, December 31, 2016	—	\$ —	12,764	\$ 128	\$ 100,812	\$ 132,014	—	\$ —	\$ 232,954
Exercise of common stock options	—	—	56	—	1,120	—	—	—	1,120
Compensation expense on common stock options	—	—	—	—	363	—	—	—	363
Issuance of restricted stock	—	—	60	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	1	3,674	—	—	—	3,675
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(644)	—	—	—	(644)
Net income	—	—	—	—	—	19,794	—	—	19,794
BALANCES, December 31, 2017	—	\$ —	12,880	\$ 129	\$ 105,325	\$ 151,808	—	\$ —	\$ 257,262
Exercise of common stock options	—	—	38	—	680	—	—	—	680
Compensation expense on common stock options	—	—	—	—	159	—	—	—	159
Issuance of restricted stock	—	—	87	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	1	2,225	—	—	—	2,226
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(629)	—	—	—	(629)
Net loss	—	—	—	—	—	(466)	—	—	(466)
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

See accompanying notes to these consolidated financial statements.



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

	<b>For the Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net (loss) income	\$ (13,864)	\$ (466)	\$ 19,794
<b>Adjustments to reconcile net (loss) income to net cash provided by operating activities:</b>			
Depreciation and amortization	23,268	22,080	21,316
Deferred taxes	(662)	314	(21,575)
Gain on disposal of assets	(55)	(69)	(87)
Retirement of rental equipment	1,512	—	—
Bad debt allowance (recovery)	664	(185)	90
Inventory allowance	3,758	—	273
Impairment of goodwill	10,039	—	—
Stock-based compensation	2,582	2,385	4,038
(Gain) loss on company owned life insurance	(219)	154	(67)
<b>Changes in operating assets and liabilities:</b>			
Trade accounts receivables	(2,550)	1,500	(1,246)
Inventory	8,256	(5,102)	(5,221)
Prepaid income taxes and prepaid expenses	3,288	(578)	(1,852)
Accounts payable and accrued liabilities	(7,225)	3,597	3,410
Deferred income	559	(104)	(2,040)
Other	61	163	666
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>29,412</b>	<b>23,689</b>	<b>17,499</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of rental equipment, property and other equipment	(69,938)	(40,065)	(13,536)
Purchase of company owned life insurance	(302)	(289)	(620)
Proceeds from insurance claim	35	—	1,231
Proceeds from sale of property and equipment	30	69	87
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(70,175)</b>	<b>(40,285)</b>	<b>(12,838)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds of other long-term liabilities	(16)	(35)	(23)
Proceeds from exercise of stock options	506	680	1,120
Purchase of treasury shares	(490)	—	—
Taxes paid related to net share settlement of equity awards	(273)	(629)	(644)
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(273)</b>	<b>16</b>	<b>453</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(41,036)</b>	<b>(16,580)</b>	<b>5,114</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>52,628</b>	<b>69,208</b>	<b>64,094</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 11,592</b>	<b>\$ 52,628</b>	<b>\$ 69,208</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Interest paid	\$ 39	\$ 14	\$ 14
Income taxes paid	275	85	3,725
<b>NON-CASH TRANSACTIONS</b>			
Transfer of rental equipment to inventory	836	144	55
Transfer of inventory to rental equipment	1184	—	—
Transfer of prepaids to rental equipment and inventory	958	—	—
Right of use asset acquired through an operating lease	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, NGS Properties, LLC and the rabbi trust associated with the Company's deferred compensation plan, see Note 10. All significant intercompany accounts and transactions for the periods presented have been eliminated in consolidation.

***Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year's presentation.

***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, Financial Instruments and Concentration of Credit Risks***

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% and 26% of our accounts receivable as of December 31, 2019 and 2018, respectively. 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 \$918,000 and \$291,000 at December 31, 2019 and 2018, 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:

(\$ in thousands)	Year Ended December 31,		
	2019	2018	2017
Beginning balance	\$ (291)	\$ (569)	\$ (597)
Accruals	(664)	—	(90)
Recoveries	—	185	—
Write-offs	37	93	118
Ending balance	<u>(918)</u>	<u>(291)</u>	<u>(569)</u>

### **Revenue Recognition Policy**

The Company adopted ASC 606, Revenue from Contracts with Customers ("ASC 606") on January, 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition as detailed below.

The Company applied ASC 606 using the cumulative effect method. We had no significant changes in our recognition of revenue at adoption and our review of all open revenue from contracts with customers on January 1, 2018 indicated we had no adjustment to be made. Accordingly, our consolidated financial statements for 2017 reported under ASC 605 are comparable to the consolidated financial statements for 2018 reported under ASC 606, since an adjustment was not needed, except for the respective additional disclosures as detailed below.

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, 2019 and 2018 was approximately \$11.6 million and \$8.3 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,		
	<i>(in thousands)</i>		
	2019	2018	2017
Compressors - sales	\$ 15,185	\$ 10,994	\$ 13,382
Flares - sales	959	2,535	2,755
Other (Parts/Rebuilds) - sales	3,619	2,740	4,071
Service and maintenance	1,980	1,443	1,439
Total revenue from contracts with customers	21,743	17,712	21,647
Add: ASC 842 rental revenue	56,701	47,766	46,046
Total revenue	\$ 78,444	\$ 65,478	\$ 67,693

### ***Contract Balances***

As of December 31, 2019 and December 31, 2018, we had the following receivables and deferred income from contracts with customers:

	December 31, 2019	December 31, 2018
	<i>(in thousands)</i>	
Accounts Receivable		
Accounts receivable - contracts with customers	\$ 3,061	\$ 2,390
Accounts receivable - ASC 842	6,963	5,120
Total Accounts Receivable	10,024	7,510
Less: Allowance for doubtful accounts	(918)	(291)
Total Accounts Receivable, net	9,106	7,219
Deferred income	\$ 640	\$ 81

The Company recognized \$48,000 in revenue for the year ended December 31, 2019 that was included in deferred income at the beginning of 2019. For the period ended December 31, 2018, the Company recognized revenue of \$176,000 from amounts related to sales that were included in deferred income at the beginning of 2018.

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, 2019, 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 (in thousands):

	<u>Balance at December 31, 2018</u>	<u>Adjustments due to ASC 842</u>	<u>Balance at January 1, 2019</u>
<b>Balance Sheet</b>			
<b>Assets</b>			
Right of use assets	\$ —	\$ 451	\$ 451
<b>Liabilities</b>			
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 2019 and 2018 amounted to 36% and 28% of revenue, respectively. Sales and rental income to Oxy and Devon Energy Production, Inc. in 2017 amounted to 20% and 15% of revenue, respectively. No other single customer accounted for more than 10% of our revenues in 2019, 2018 or 2017. Oxy's accounts receivable balances amounted to 35% and 26% of our accounts receivable as of December 31, 2019 and 2018, respectively. No other customers amounted to more than 10% of our accounts receivable as of December 31, 2019 and 2018.

### ***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 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. 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 6 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, 2019 and 2018, 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, 2019. 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. The warranty reserve was \$74,000 and \$22,000 for December 31, 2019 and 2018, respectively, 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, 2019.

## ***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, 2019 and 2018 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***

On January 1, 2019, the Company adopted ASC Topic 842, Leases. We applied certain practical expedients that allow companies to not reassess leases that are in effect prior to adoption, the practical expedient that allows lessors to not separate lease and non-lease components for certain asset classes and the practical expedient that allows lessors to exclude third party taxes from lease revenue and lease-related expenses. Adoption of ASC 842 resulted in an increase in lease assets and lease liabilities on the consolidated balance sheet of approximately \$451,000. The adoption by the Company of ASC 842, in regards



to the increase in liabilities, did not impact the debt covenants on our existing line of credit, as leases are not considered new indebtedness in our credit agreement as confirmed with our bank.

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.

### ***Revisions of Prior Period Financial Statements***

In conjunction with the preparation of its year-end financial statements for 2019, the Company determined that certain, immaterial operating costs and expenses were inappropriately capitalized during the years ended December 31, 2018 and 2017, as well for interim periods in 2019 and 2018. As a result, the Company revised its prior period financial statements to incorporate additional operating costs and expenses of \$1.1 million, \$1.14 million and \$96,000 for the nine months ended September 30, 2019, the year ended December 31, 2018 and the year ended December 31, 2017, respectively.

In accordance with Staff Accounting Bulletin (“SAB”) No. 99, “Materiality”, and SAB No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements”, we evaluated the aforementioned errors and, based on an analysis of quantitative and qualitative factors, determined that the related impact was not material to our consolidated financial statements for any prior annual or interim period. Therefore, amendments of previously filed reports are not required. A summary of the revisions to our previously issued annual financial statements is included in Note 18, Revisions of Prior Period Financial Statements. In addition, a summary of the revisions to our unaudited quarterly financial data is included in Note 17, Quarterly Financial Data (Unaudited). The impacted balances in the accompanying notes to these consolidated financial statements have also been revised accordingly.

### **3. Inventory**

Our inventory, net of allowance for obsolescence of \$24,000 and \$19,000 at December 31, 2019 and 2018, respectively, consisted of the following (in thousands):

	2019	2018
Raw materials - current	\$ 19,388	\$ 26,152
Work-in-process	1,692	3,016
Finished goods	—	1,022
Inventory - current	21,080	30,190
Raw materials - long term (net of allowances of \$37 and \$24, respectively)	1,068	3,980
Inventory - total	<u>\$ 22,148</u>	<u>\$ 34,170</u>

There were seven newly completed compressor units available for sale in finished goods for a total of \$1.0 million at December 31, 2018. These units were transferred from inventory to our rental fleet due to customer demands during 2019. 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.

### ***Inventory Allowance***

Given its concerns about the industry backdrop, Company management determined during the third quarter of 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 an increase of \$3.4 million to the Company's inventory allowance reserve for costs that may not be recoverable in the future. During the

fourth quarter of 2019, management identified another \$408,000 of slow moving or obsolete inventory. For the year ended December 31, 2019, inventory allowance totaled \$3.8 million. We ended 2019 with an inventory allowance balance of \$24,000.

A summary of our inventory allowance is as follows:

(\$ in thousands)	Year Ended December 31,		
	2019	2018	2017
Beginning balance	\$ (19)	\$ (15)	\$ (15)
Accruals	(3,758)	(4)	(273)
Write-offs	3,753	—	273
Ending balance	<u>(24)</u>	<u>(19)</u>	<u>(15)</u>

#### 4. Rental Equipment, Property and Equipment

##### *Rental Equipment*

Our rental equipment and associated accumulated depreciation as of December 31, 2019 and 2018, respectively, consisted of the following (in thousands):

	2019	2018
Compressor units	\$ 370,961	\$ 329,697
Work-in-progress	9,129	11,868
Rental equipment	380,090	341,565
Accumulated depreciation	(162,348)	(165,459)
Rental equipment, net of accumulated depreciation	<u>\$ 217,742</u>	<u>\$ 176,106</u>

Our rental equipment has an estimated useful life between 15 and 25 years. Depreciation expense for rental equipment was \$21.4 million, \$20.9 million and \$20.0 million for the year ended December 31, 2019, 2018 and 2017, respectively.

In January 2019, the Company reviewed the estimated useful lives of its rental equipment. This review indicated that the actual lives of its larger horsepower rental equipment were longer than the estimated useful lives used for depreciation purposes in the Company's financial statements. These units incorporate newer technology and heavier, more robust castings and forging, which allows for complete overhauls at longer cycles when compared to its older, lower horsepower units. Accordingly, as of January 1, 2019, the Company changed its estimates of the useful lives of for these higher horsepower units from 15 years to 20 years (for its 400-600 horsepower units) or 25 years (for its 1,380 horsepower units). This analysis is consistent with our peers, which are depreciating their compressor units over 20 to 30 years. The effect of this change in estimate was to reduce 2019 depreciation expense by approximately \$1.47 million, decrease 2019 net loss by \$1.13 million, and decrease 2019 basic and diluted loss per share by \$0.09.

##### *Retirement of Rental Equipment*

Given its concerns about the current industry backdrop, Company management determined during the third quarter of 2019 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 327 units should be retired from our rental fleet. Accordingly, we recorded a \$1.5 million loss on retirement of rental equipment during the year ended December 31, 2019.

During our review of our rental compressor units in 2018, we determined 13 units should be retired from our rental fleet. We recorded no loss on this retirement, as these units were fully depreciated. We did not record any retirements from our rental fleet in 2017.

## Property and Equipment

Property and equipment consists of the following at December 31, 2019 and 2018 (in thousands):

	Useful Lives (Years)	2019	2018
Land	—	\$ 1,290	\$ 1,290
Building	39	18,632	6,116
Building and leasehold improvements	39	1,168	808
Office equipment and furniture	5	2,001	1,492
Software	5	573	573
Machinery and equipment	7	3,492	3,324
Vehicles	3	7,560	6,292
Construction in Progress	—	—	8,319
Total		34,716	28,214
Less accumulated depreciation		(12,847)	(11,570)
Total		<u>\$ 21,869</u>	<u>\$ 16,644</u>

Depreciation expense for property and equipment was \$1.7 million, \$1.1 million and \$1.2 million for the year ended December 31, 2019, 2018 and 2017, 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, 2019, 2018 and 2017 (in thousands):

	2019	2018	2017
Rentals	\$ 22,596	\$ 21,611	\$ 20,873
Sales	275	271	267
Service & Maintenance	37	22	22
Corporate	235	50	29
Total	<u>\$ 23,143</u>	<u>\$ 21,954</u>	<u>\$ 21,191</u>

## 5. 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 10 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.

ROU 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, 2019 consolidated balance sheet was as follows:

	<b>Classification on Consolidated Balance Sheet</b>	<b>December 31, 2019</b>
		<i>(\$ in thousands)</i>
Operating lease assets	Right of use assets-operating leases	\$ 604
Current lease liabilities	Current operating leases	\$ 189
Noncurrent lease liabilities	Long-term operating leases	415
Total lease liabilities		\$ 604
Weighted average remaining lease term in years		2.6
Implicit Rate		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, 2019 was approximately \$548,000.

	<b>December 31, 2019</b>
	<i>(in thousands)</i>
Cash paid for amounts included in the measurement of lease liabilities	
Operating lease cost <sup>(1) (2)</sup>	\$ 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 \$350,000 for leases with terms of 12 months or less and \$198,000 for leases with terms greater than 12 months.

The following table shows the future maturities of lease liabilities:

<b>Years Ending December 31,</b>	<b>Lease Liabilities</b>
	<i>(in thousands)</i>
2020	\$ 208
2021	172
2022	46
2023	38
2024	38
Thereafter	168
Total lease payments	670
Less: Imputed interest	(66)
Total	\$ 604

Under the previous lease standard (Topic 840), future minimum obligations under lease commitments in effect at December 31, 2018 were as follows:

	<b>Operating Leases</b>	
	<i>(in thousands)</i>	
2019	\$	298
2020		118
2021		97
2022		44
2023		35
Thereafter		15
Total	\$	607

Rent expense under such leases was \$198,000, \$433,000, and \$310,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

## 6. 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.

	<b>Goodwill, net</b>	
December 31, 2018	\$	10,039
Impairments		(10,039)
December 31, 2019	\$	—

We experienced no impairment of goodwill during the years ended December 31, 2018 and 2017.

## 7. Intangibles

At December 31, 2019 and 2018, the Company had intangible assets, which relate to developed technology and a trade name. The carrying amount net of accumulated amortization at December 31, 2019 and 2018 was \$1.3 million and \$1.4 million, respectively. Amortization expense recognized in each of the years ending December 31, 2019, 2018, and 2017 was \$125,000. Estimated amortization expense for the years 2020-2024 is \$125,000 per year. The Company has an intangible asset with a gross carrying value of \$654,000 at December 31, 2019 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, 2019			December 31, 2018		
	Useful Life (years)	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed Technology	20	\$ 2,505	\$ 1,883	\$ 622	\$ 2,505	\$ 1,758	\$ 747
Trade Name	Indefinite	654	—	654	654	—	654
<b>Total</b>		<b>\$ 3,159</b>	<b>\$ 1,883</b>	<b>\$ 1,276</b>	<b>\$ 3,159</b>	<b>\$ 1,758</b>	<b>\$ 1,401</b>

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, 2019 or 2018.

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.

## 8. Credit Facility

We have a senior secured revolving credit agreement with JP Morgan Chase Bank, N.A (the "Amended Credit Agreement") aggregate commitment of \$30 million, subject to collateral availability. We also have a right to request from the Lender, on an uncommitted basis, an increase of up to \$20 million on the aggregate commitment (which could potentially increase the commitment amount to \$50 million).

**Borrowing Base.** At any time before the maturity of the Amended Credit Agreement, we may draw, repay and re-borrow amounts available under the borrowing base up to the maximum aggregate availability discussed above. Generally, the borrowing base equals 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") may adjust the borrowing base components if material deviations in the collateral are discovered in future audits of the collateral. We had \$29.5 million borrowing base availability at December 31, 2019 under the terms of our Amended Credit Agreement.

**Interest and Fees.** Under the terms of the Amended Credit Agreement, we have 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 may 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 is payable monthly on outstanding principal amounts, provided that accrued interest on LIBOR-based loans is payable at the end of each interest period, but in no event less frequently than quarterly. In addition, fees and expenses are 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 is December 31, 2020, at which time all amounts borrowed under the agreement will be due and outstanding letters of credit must be cash collateralized. The agreement may be terminated early upon our request or the occurrence of an event of default.

*Security.* The obligations under the Amended Credit Agreement are 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 contains customary representations and warranties, as well as covenants which, among other things, limit 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 have certain financial covenants that require 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 contains customary events of default for credit facilities of this size and type, and includes, 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 may be accelerated upon the occurrence of an event of default.

As of December 31, 2019, we were in compliance with all covenants in our Amended Credit Agreement. A default under our Credit Agreement could 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, 2019 our balance on the line of credit was \$417,000. Our weighted average interest rate for the year ended December 31, 2019 was 3.06%.

## 9. Income Taxes

The (provision for) benefit from income taxes for the years ended December 31, 2019, 2018 and 2017, consists of the following (in thousands):

	2019	2018	2017
Current benefit (provision):			
Federal benefit (expense)	\$ 86	\$ 164	\$ (3,031)
State (expense) benefit	(55)	78	(257)
Total current benefit (provision)	31	242	(3,288)
Deferred benefit (provision):			
Federal benefit (expense)	662	(314)	21,575
Total deferred benefit (expense)	662	(314)	21,575
Total benefit (provision)	\$ 693	\$ (72)	\$ 18,287

On December 22, 2017, the U.S. government enacted the 2017 Tax Act. The 2017 Tax Act made broad and complex changes to the U.S. tax code that affected the Company's 2017 financial results. The 2017 Tax Act also established new tax laws that affected the Company's financial results after 2017, including a reduction in the U.S. federal corporate income tax rate from 35 percent to 21 percent, additional limitations on the deductibility of executive compensation, limitations on the deductibility of interest, and repeal of the domestic manufacturing deduction. As such, the Company recognized a \$18.4 million

income tax benefit related to the re-measurement of our deferred tax assets and liabilities in our 2017 financial statements in accordance with SAB 118, which provides SEC staff guidance for the application of ASC 740 in the reporting period in which the 2017 Tax Act was signed into law. We completed our detailed analysis in 2018 with no material adjustments.

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and (liabilities) as of December 31, 2019 and 2018, are as follows (in thousands):

	<b>2019</b>	<b>2018</b>
Deferred income tax assets:		
Net operating loss carryover	\$ 1,519	\$ 2,730
Stock compensation	580	746
Deferred compensation	\$ 389	\$ 243
Other	321	197
Total deferred income tax assets	\$ 2,809	\$ 3,916
Deferred income tax liabilities:		
Property and equipment	\$ (33,761)	(35,030)
Goodwill and other intangible assets	(291)	(573)
Other	—	(219)
Total deferred income tax liabilities	(34,052)	(35,822)
Net deferred income tax liabilities	<u>\$ (31,243)</u>	<u>\$ (31,906)</u>

The effective tax rate for the years ended December 31, 2019, 2018 and 2017, differs from the statutory rate as follows:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Statutory rate	21.0 %	21.0 %	34.0 %
State and local taxes	(3.7)%	1.5 %	1.5 %
Uncertain tax position	— %	(139.1)%	— %
Goodwill impairment	(13.7)%	— %	— %
Research and development credit	1.4 %	92.2 %	— %
Stock based compensation	(0.8)%	10.0 %	(14.3)%
Nondeductible compensation	(0.3)%	(7.8)%	— %
Domestic production credit	— %	— %	(15.2)%
Other	0.9 %	3.9 %	(1.5)%
Effective rate	4.8 %	(18.3)%	4.5 %
Deferred re-measurement for rate change	— %	— %	(1218.0)%
Effective rate	<u>4.8 %</u>	<u>(18.3)%</u>	<u>(1213.5)%</u>

During the fourth quarter of 2018, the Company discovered a potential uncertain tax position attributable to the deductibility of certain executive compensation expense for federal income tax purposes aggregating approximately \$168,000, \$149,000 and \$230,000 for the years ended December 31, 2017, 2016 and 2015, respectively. As a result, in accordance with ASC Topic 740, during the fourth quarter of 2018, the Company recorded a tax adjustment of \$547,000 and accrued penalty and interest expense of \$55,000 attributable to the uncertain tax position. Management of the Company determined that effect of the potential uncertain tax position on previously reported results of operations for the years ended December 31, 2017, 2016 and 2015 was not material.

As of December 31, 2019, the Company has filed amended tax returns for the years ended 2015, 2016 and 2017 and has recognized certain offsetting deductions, thus removing our uncertain tax position reserve for 2015, 2016 and 2017.

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.



A reconciliation of the beginning and ending amount of uncertain tax positions is as follows (in thousands):

<b>Balance at January 1, 2019</b>	<b>\$</b>	<b>578</b>
Additions based on tax positions related to current year		—
Reductions for tax positions of prior years		(578)
<b>Balance at December 31, 2019</b>	<b>\$</b>	<b>—</b>

Our policy regarding income tax interest and penalties is to expense those items as incurred. During the years ended December 31, 2019, 2018 and 2017, there were no significant income tax interest or penalty items in the statement of income.

We had a regular income tax net operating loss carry forward of \$6.7 million for federal income taxes as of December 31, 2019. This net operating loss will be carried forward indefinitely but subject to 80% limitation.

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.

## 10. 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 \$1.5 million and \$1.0 million as of December 31, 2019 and 2018, respectively, with a gain related to the policy of \$218,800 and a loss of \$153,900 reported in other income in our consolidated income statement for the year ended December 31, 2019 and 2018, 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 \$1.7 million and \$1.1 million as of December 31, 2019 and 2018, 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, 2019 and 2018, respectively, we have 85,565 and 101,895 unvested restricted stock units being deferred. As of December 31, 2019 and 2018, respectively we have released and issued 89,187 and 34,732 shares to the deferred compensation plan with a value of \$1.7 million and \$871,300, respectively.

## 11. 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, 2019 and 2018, there were no issued or outstanding preferred shares.

## 12. 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, 2019 are as follows:

Years Ending December 31, (in thousands)	
2020	\$ 25,924
2021	\$ 18,489
2022	\$ 16,310
2023	\$ 12,507
2024	\$ 9,788
Thereafter	\$ 2,366
Total	\$ 85,384

### 13. Stock-Based 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, 2019 we had 123,092 shares outstanding under the 2009 Plan that will vest over the next two years.

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 to December 31, 2019, only restricted shares/units had been granted.

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 2018 performance, Mr. Taylor, was awarded 131,674 restricted shares/units on March 29, 2019, which vest over three years, in equal installments beginning March 29, 2020. On March 29, 2019, the Compensation Committee awarded 20,000 restricted shares/units to each G. Larry Lawrence, our former CFO, and James Hazlett, our Vice President of Technical Services. The restricted shares/units to Messrs. Hazlett and G.L. Lawrence vest over three years, in equal installments, beginning March 29, 2020. We also awarded and issued 23,136 shares of restricted common stock/units to our Board of Directors as partial payment for 2019 directors' fees. The restricted stock/units issued to our directors vests over one year, in quarterly installments, beginning March 31, 2020.

On November 15, 2019, our former CFO, G. Larry Lawrence, retired from the Company. At time of retirement, the Board of Directors approved the accelerated vesting of all unvested shares held by Mr. Lawrence. In accordance with ASC 718, the Company considered the Board's approval of accelerated vesting as a modification to all of the unvested shares held by Mr. Lawrence on the date of his retirement. The grant-date fair value of Mr. Lawrence's restricted shares/units ranged from \$17.29 to \$24.55 per share. The closing price of the Company's stock was \$11.18 on November 15, 2019, the modification date. Due to the price on date of modification being less than the original grant value, the Company recorded less compensation expense related to the accelerated vesting than would have been recognized over the vesting period if Mr. Lawrence had not retired. Total compensation expensed booked related to the Mr. Lawrence's accelerated shares was \$189,000.

Compensation expense related to the restricted shares/units was approximately \$2.5 million, \$2.2 million and \$3.7 million for the years ended December 31, 2019, 2018, and 2017, respectively. As of December 31, 2019, there was a total of approximately \$3.3 million of unrecognized compensation expense related to the nonvested portion of these restricted shares/units. This expense is expected to be recognized over the next three years and a quarter. As of December 31, 2019, 328,173 shares were still available for issuance under the Equity Incentive Plan.

A summary of all restricted stock/units activity as of December 31, 2017, 2018 and 2019 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)
<b>Outstanding, December 31, 2016</b>	139,451	\$ 21.34	9.13	\$ 4,483
Granted	126,432	27.06	—	3,421
Vested	(81,494)	21.20	—	2,361
Canceled/Forfeited	—	—	—	—
<b>Outstanding, December 31, 2017</b>	184,389	\$ 25.32	8.83	\$ 4,831
Granted	140,988	24.55	—	3,461
Vested	(110,747)	23.97	—	2,806
Canceled/Forfeited	—	—	—	—
<b>Outstanding, December 31, 2018</b>	214,630	\$ 25.51	8.85	\$ 3,529
Granted	199,810	17.16	—	3,433
Vested	(134,674)	24.26	—	2,807
Canceled/Forfeited	—	—	—	—
<b>Outstanding, December 31, 2019</b>	279,766	\$ 20.15	8.77	\$ 3,430

### ***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, 2019, 337,503 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.

<b>Weighted average Black -Scholes fair value assumption during the year ended December 31, are as follows:</b>		<b>2017</b>
Risk free rate		2.12 %
Expected life		6 years
Expected volatility		39.59 %
Expected dividend yield		—

There were no stock option grants made in 2019 or 2018.

A summary of all option activity as of December 31, 2017, 2018 and 2019 and changes during the years then ended are presented below:

	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
<b>Outstanding, December 31, 2016</b>	350,186	\$ 19.45	4.25	\$ 4,453
Granted	32,750	28.15	—	—
Exercised	(55,666)	20.12	—	446
<b>Outstanding, December 31, 2017</b>	327,270	\$ 20.21	4.28	\$ 2,255
Granted	—	—	—	—
Exercised	(38,250)	17.19	—	216
Canceled/Forfeited	(5,534)	24.02	—	—
<b>Outstanding, December 31, 2018</b>	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	\$ —
Exercisable, December 31, 2019	197,901	\$ 23.43	3.48	\$ —

The weighted average grant date fair value of options granted during 2017 was \$11.93. We had no grants in 2019 and in 2018. 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, 2018, and 2017 was approximately \$474,000, \$216,000, and \$446,000, respectively. Cash received from stock options exercised during the years ended December 31, 2019, 2018, and 2017 was approximately \$506,000, \$680,000, and \$1.1 million, respectively.

The following table summarizes information about our stock options outstanding at December 31, 2019:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$0.01-15.70	8,500	2.07	\$ 14.89	8,500	\$ 14.89
\$15.71-17.81	26,000	0.74	17.40	26,000	17.40
\$17.82-20.48	50,500	1.34	19.43	50,500	19.43
\$20.49-33.36	123,334	5.34	27.33	112,901	27.26
	208,334	3.66	\$ 23.67	197,901	\$ 23.43

The summary of the status of our unvested stock options as of December 31, 2019 and changes during the year then ended is presented below.

	Shares	Weighted Average Grant Date Fair Value
Unvested stock options:		
Unvested at December 31, 2018	20,865	\$ 11.93
Granted	—	—
Vested	(10,432)	11.93
Canceled/Forfeited	—	—
Unvested at December 31, 2019	10,433	\$ 11.93

We recognized stock compensation expense from stock options vesting of \$124,000, \$159,000, and \$363,000 for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, there was approximately \$16,000 of total unamortized compensation cost related to unvested stock options. We expect to recognize such cost in 2020.

#### 14. (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,		
	2019	2018	2017
Numerator:			
Net (loss) income	\$ (13,864)	\$ (466)	\$ 19,794
Denominator for basic net (loss) income per common share:			
Weighted average common shares outstanding	13,114	12,965	12,831
Denominator for diluted net (loss) income per share:			
Weighted average common shares outstanding	13,114	12,965	12,831
Dilutive effect of stock options and restricted shares	—	—	279
Diluted weighted average shares	13,114	12,965	13,110
(Loss) earnings per common share:			
Basic	\$ (1.06)	\$ (0.04)	\$ 1.54
Diluted	\$ (1.06)	\$ (0.04)	\$ 1.51

In the years ended ended December 31, 2019 and 2018, restricted stock and stock options were not included in the computation of diluted loss per share due to their antidilutive effect.

In the year-ended December 31, 2017, options to purchase 83,917 shares of common stock with exercise prices ranging from \$28.15 to \$33.36 were not included in the computation of dilutive income per share, due to their anti-dilutive effect.

#### 15. 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.

## 16. Commitments and Contingencies

### 401(k) Plan

We offer a 401(k) Plan to all employees that have reached the age of eighteen and have completed two months of service. The participants may contribute up to 100% of their salary subject to IRS limitations. Employer contributions are subject to Board discretion and are subject to a vesting schedule of 20% each year after the first year and 100% after six years. We contributed \$393,000, \$355,000, and \$301,000 to the 401(k) Plan in 2019, 2018 and 2017, respectively, which is recorded in cost of revenues and selling, general and administrative expenses..

### 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.

## 17. Quarterly Financial Data (Unaudited)

The following tables presents selected unaudited financial data for each of the eight quarters in the two-year period ended December 31, 2019, which have been updated to reflect the revisions discussed in Note 2 (Summary of Significant Accounting Policies). The revisions to the Company's unaudited interim financial statements during 2019 will be incorporated when it issues its Forms 10-Q for the first three quarter of 2020.

The Company believes this information reflects all recurring adjustments necessary to fairly state this information when read in conjunction with the Company's financial statements and the related notes. Please note that amounts in the tables below may not sum due to rounding differences.

*(in thousands, except per share)*

2019	Q1	Q2	Q3	Q4	Total
Total revenue	\$ 17,991	\$ 19,895	\$ 20,852	\$ 19,706	\$ 78,444
Operating income (loss)	(145)	302	(14,021)	(1,289)	(15,153)
Net income (loss)	98	327	(12,579)	(1,710)	(13,864)
Earnings (loss) per share, basic	0.01	0.02	(0.96)	(0.13)	(1.06)
Earnings (loss) per share, diluted	0.01	0.02	(0.96)	(0.13)	(1.06)
Earnings (loss) per share, year to date, basic	0.01	0.03	(0.93)	(1.06)	(1.06)
Earnings (loss) per share, year to date, diluted	0.01	0.03	(0.93)	(1.06)	(1.06)

2018	Q1	Q2	Q3	Q4	Total
Total revenue	\$ 14,718	\$ 18,204	\$ 16,396	\$ 16,160	\$ 65,478
Operating income (loss)	305	179	(500)	(491)	(507)
Net income (loss)	190	211	(118)	(749)	(466)
Earnings (loss) per share, basic	0.01	0.02	(0.01)	(0.06)	(0.04)
Earnings (loss) per share, diluted	0.01	0.02	(0.01)	(0.06)	(0.04)

Revisions to our unaudited quarterly financial data are as follows:

**For the Three Months Ended September 30, 2019**

<i>(\$ in thousands, except per share)</i>	As Reported	Revisions	As Revised
Total revenue	\$ 20,852	\$ —	\$ 20,852
Operating loss	(13,561)	(460)	(14,021)
Net loss	(12,232)	(347)	(12,579)
Loss per share, basic	(0.93)	(0.03)	(0.96)
Loss per share, diluted	(0.93)	(0.03)	(0.96)

**For the Three Months Ended June 30, 2019**

<i>(\$ in thousands, except per share)</i>	As Reported	Revisions	As Revised
Total revenue	\$ 19,895	\$ —	\$ 19,895
Operating income (loss)	593	(291)	302
Net income (loss)	573	(246)	327
Earnings (loss) per share, basic	0.04	(0.02)	0.02
Earnings (loss) per share, diluted	0.04	(0.02)	0.02

**For the Three Months Ended March 31, 2019**

<i>(\$ in thousands, except per share)</i>	As Reported	Revisions	As Revised
Total revenue	\$ 17,991	\$ —	\$ 17,991
Operating income (loss)	209	(354)	(145)
Net income (loss)	357	(259)	98
Earnings (loss) per share, basic	0.03	(0.02)	0.01
Earnings (loss) per share, diluted	0.03	(0.02)	0.01

**For the Three Months Ended December 31, 2018**

<i>(\$ in thousands, except per share)</i>	As Reported	Revisions	As Revised
Total revenue	\$ 16,160	\$ —	\$ 16,160
Operating loss	106	(597)	(491)
Net loss	(282)	(467)	(749)
Loss per share, basic	(0.02)	(0.04)	(0.06)
Loss per share, diluted	(0.02)	(0.04)	(0.06)

**For the Three Months Ended September 30, 2018**

<i>(\$ in thousands, except per share)</i>	As Reported	Revisions	As Revised
Total revenue	\$ 16,396	\$ —	\$ 16,396
Operating (loss)	(44)	(456)	(500)
Net income (loss)	236	(354)	(118)
Earnings (loss) per share, basic	0.02	(0.03)	(0.01)
Earnings (loss) per share, diluted	0.02	(0.03)	(0.01)

	<b>For the Three Months Ended June 30, 2018</b>		
<i>(\$ in thousands, except per share)</i>	As Reported	Revisions	As Revised
Total revenue	\$ 18,204	\$ —	\$ 18,204
Operating income (loss)	226	(47)	179
Net income (loss)	247	(36)	211
Earnings (loss) per share, basic	0.02	—	0.02
Earnings (loss) per share, diluted	0.02	—	0.02

	<b>For the Three Months Ended March 31, 2018</b>		
<i>(\$ in thousands, except per share)</i>	As Reported	Revisions	As Revised
Total revenue	\$ 14,718	\$ —	\$ 14,718
Operating income (loss)	350	(45)	305
Net income (loss)	225	(35)	190
Earnings (loss) per share, basic	0.02	(0.01)	0.01
Earnings (loss) per share, diluted	0.02	(0.01)	0.01

## 18. Revisions of Prior Period Financial Statements

As discussed in Note 2 (Summary of Significant Accounting Policies), in conjunction with the preparation of its year-end financial statements for 2019, the Company determined that certain, immaterial operating costs and expenses were inappropriately capitalized during the years ended December 31, 2018 and 2017, as well for interim periods in 2019 and 2018. As a result, the Company revised its prior period financial statements to incorporate additional operating costs and expenses of \$1.1 million, \$1.14 million and \$96,000 for the nine months ended September 30, 2019, the year ended December 31, 2018 and the year ended December 31, 2017, respectively.

These revisions are summarized in the tables below.

### *Revised Consolidated Balance Sheet*

	<b>As of December 31, 2018</b>		
<i>(\$ in thousands)</i>	As Reported	Revisions	As Revised
<b>Assets</b>			
Inventory	\$ 30,974	\$ (784)	\$ 30,190
Prepaid income taxes	3,148	40	3,188
Prepaid expenses and other	2,430	(734)	1,696
<b>Total current assets</b>	<b>96,399</b>	<b>(1,478)</b>	<b>94,921</b>
Rental equipment, net of accumulated depreciation	175,886	220	176,106
Property and equipment, net of accumulated depreciation	16,587	57	16,644
<b>Total assets</b>	<b>305,401</b>	<b>(1,201)</b>	<b>304,200</b>
<b>Liabilities and Stockholders' Equity</b>			
Deferred income tax liability	\$ 32,158	\$ (252)	\$ 31,906
Total liabilities	45,220	(252)	44,968
Retained earnings	152,291	(949)	151,342
<b>Total stockholders' equity</b>	<b>260,181</b>	<b>(949)</b>	<b>259,232</b>
<b>Total liabilities and stockholders' equity</b>	<b>305,401</b>	<b>(1,201)</b>	<b>304,200</b>



**Revised Consolidated Statements of Income**

	<b>For the Year Ended December 31, 2018</b>		
<i>(\$ in thousands, except per share)</i>	As Reported	Revisions	As Revised
<b>Total revenue</b>	<b>\$ 65,478</b>	<b>\$ —</b>	<b>\$ 65,478</b>
Operating costs and expenses:			
Cost of rentals, exclusive of depreciation stated separately below	20,746	1,114	21,860
Depreciation and amortization	22,049	31	22,080
Total operating costs and expenses	64,840	1,145	65,985
<b>Operating income (loss)</b>	<b>638</b>	<b>(1,145)</b>	<b>(507)</b>
Income (loss) before provision for income taxes	751	(1,145)	(394)
Provision for income taxes:			
Current benefit (expense)	248	(6)	242
Deferred (expense) benefit	(573)	259	(314)
Income tax (expense) benefit	(325)	253	(72)
<b>Net income (loss)</b>	<b>426</b>	<b>(892)</b>	<b>(466)</b>
Earnings (loss) per share, basic	0.03	(0.07)	(0.04)
Earnings (loss) per share, diluted	0.03	(0.07)	(0.04)

	<b>For the Year Ended December 31, 2017</b>		
<i>(\$ in thousands, except per share)</i>	As Reported	Revisions	As Revised
<b>Total revenue</b>	<b>\$ 67,693</b>	<b>\$ —</b>	<b>\$ 67,693</b>
Operating costs and expenses:			
Cost of rentals, exclusive of depreciation stated separately below	18,078	82	18,160
Depreciation and amortization	21,302	14	21,316
Total operating costs and expenses	66,126	96	66,222
<b>Operating income (loss)</b>	<b>1,567</b>	<b>(96)</b>	<b>1,471</b>
Income (loss) before provision for income taxes	1,603	(96)	1,507
Provision for income taxes:			
Current (expense) benefit	(3,334)	46	(3,288)
Deferred benefit (expense)	21,582	(7)	21,575
Income tax benefit	18,248	39	18,287
<b>Net income (loss)</b>	<b>19,851</b>	<b>(57)</b>	<b>19,794</b>
Earnings (loss) per share, basic	1.55	(0.01)	1.54
Earnings (loss) per share, diluted	1.51	—	1.51

***Revised Consolidated Statements of Stockholders' Equity***

	<b>For the Year Ended December 31, 2018</b>		
<i>(\$ in thousands)</i>	As Reported	Revisions	As Revised
Net income (loss)	\$ 426	\$ (892)	\$ (466)
Retained earnings	152,291	(949)	151,342
Total stockholders' equity	260,181	(949)	259,232

	<b>For the Year Ended December 31, 2017</b>		
<i>(\$ in thousands)</i>	As Reported	Revisions	As Revised
Net income (loss)	\$ 19,851	\$ (57)	\$ 19,794
Retained earnings	151,865	(57)	151,808
Total stockholders' equity	257,319	(57)	257,262

***Revised Consolidated Statements of Cash Flows***

	<b>For the Year Ended December 31, 2018</b>		
<i>(\$ in thousands)</i>	As Reported	Revisions	As Revised
Cash flows from operating activities:			
Net income (loss)	\$ 426	\$ (892)	\$ (466)
Depreciation and amortization	22,049	31	22,080
Deferred taxes	573	(259)	314
Inventory (increase) decrease	(5,757)	655	(5,102)
Prepaid income taxes and prepaid expenses (increase) decrease	(1,318)	740	(578)
<b>Net cash provided by operating activities</b>	<b>23,414</b>	<b>275</b>	<b>23,689</b>
Cash flows from investing activities:			
Purchase of rental equipment, property and other equipment	(39,790)	(275)	(40,065)
<b>Net cash used in investing activities</b>	<b>(40,010)</b>	<b>(275)</b>	<b>(40,285)</b>
<b>Net change in cash and cash equivalents</b>	<b>(16,580)</b>	<b>—</b>	<b>(16,580)</b>

	<b>For the Year Ended December 31, 2017</b>		
<i>(\$ in thousands)</i>	As Reported	Revisions	As Revised
Cash flows from operating activities:			
Net income (loss)	\$ 19,851	\$ (57)	\$ 19,794
Depreciation and amortization	21,302	14	21,316
Deferred taxes	(21,582)	7	(21,575)
Inventory (increase) decrease	(5,350)	129	(5,221)
Prepaid income taxes and prepaid expenses increase	(1,806)	(46)	(1,852)
<b>Net cash provided by operating activities</b>	<b>17,452</b>	<b>47</b>	<b>17,499</b>
Cash flows from investing activities:			
Purchase of rental equipment, property and other equipment	(13,489)	(47)	(13,536)
<b>Net cash used in investing activities</b>	<b>(12,791)</b>	<b>(47)</b>	<b>(12,838)</b>
<b>Net change in cash and cash equivalents</b>	<b>5,114</b>	<b>—</b>	<b>5,114</b>

## 19. Subsequent Events

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. In addition, recent events concerning OPEC and Russia resulted in Saudi Arabia significantly discounting the price of its crude oil, as well as Saudi Arabia and Russia significantly increasing their oil supply. These actions have led to significant weakness in oil prices and ensuing reductions of exploration and production company capital and operating budgets.

The full impact of the COVID-19 outbreak continues to evolve daily as of the date of this report. 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 decline among our smaller horsepower and medium horsepower units during the remainder of 2020 after a minimal decline during the first quarter of 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. 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 and OPEC’s actions will have a negative effect on its results of operations in 2020 and perhaps beyond, the degree to which these factors will impact our business remains uncertain.

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# EXECUTIVE OFFICERS & DIRECTORS

**STEPHEN C. TAYLOR**

Chairman of the Board, President  
and Chief Executive Officer

**JAMES R. LAWRENCE**

Vice President and Chief Financial  
Officer

**JAMES R. HAZLETT**

Vice President –Technical Services

**LESLIE SHOCKLEY 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.

**WILLIAM F. HUGHES**

Director

Co-Owner, The  
Whole Wheatery, LLC

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Computershare

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**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.