2023

ANNUAL REPORT

NATURAL GAS SERVICES GROUP, INC.

Stephen C. Taylor
Chairman of the Board

"With the successes of 2023 as a springboard, we are well positioned to continue our growth into the future."
Steve Taylor

A LETTER TO SHAREHOLDERS

Dear Shareholders,

As we reflect on 2023, it is with great pride that I address you on behalf of Natural Gas Services Group, Inc (NGS). Our commitment to quality and service and the execution of our strategic growth initiatives has yielded a year of significant achievements and robust financial performance.

The year 2023 was a historic milestone for NGS as we posted record results.

We witnessed a remarkable 43% increase in total revenue compared to 2022, reaching $121.2 million, with rental revenue contributing $106.2 million of that (also a 43% increase). Demonstrating our operational efficiency, our operating income was $10.5 million and adjusted EBITDA soared by 57%, to $45.8 million. Net income stood at $4.7 million, translating to $0.39 per basic share and $0.38 per diluted share.

From a cost perspective, the Company made great strides in reducing our rental cost of goods resulting in higher trending adjusted gross margins. We have also outsourced our Midland-based heavy fabrication capability which will result in lower costs and reduced working capital requirements in the future.

These financial results were primarily attributable to the continued execution of our large horsepower strategy and the associated addition and deployment of very large horsepower compressor units. The market for our equipment and services continued in high demand throughout the year with pre-contracted agreements, long rental terms and attractive pricing and returns. To enable this growth in our fleet, the Company employed a significant amount of debt capital. Although large relative to our historical debt levels, we were able to contractually commit it all before the year ended. The Company made significant progress to solidify our position in the 1500 horsepower segment while simultaneously penetrating the 2500 horsepower segment. Installation of this newly built equipment is continuing into 2024.

The rental fleet grew to over 500,000 total horsepower by year-end with approximately 81% of it utilized. The majority of our new horsepower was in our large horsepower sector and included our recent technological developments focused on runtime efficiency and reduced methane emissions.

This success is a testament to the hard work and dedication of our team, all of which was accomplished with no recordable personal injuries during the year. My sincere thanks to everyone.

The result of these achievements and the market's recognition of our performance is reflected in our share price appreciation. For the full year of 2023, NGS stock increased 40% with an additional gain of 21% in the first quarter of 2024.

Looking ahead, we are excited about the opportunities that lie before us. The Company recently announced guidance that reflects continued significant growth in adjusted EBITDA in 2024, with a targeted return on newly invested capital of at least 20%.

As most of you know, I originally retired in May 2022, but have been interim CEO and President since reassuming the role in November 2022. While honored to lead the Company once again, the Board of Directors continued the search for the future leadership of the Company. That search successfully culminated with the appointment of Brian Tucker as President in October 2023 and Justin Jacobs as Chief Executive Officer in February 2024. Brian has significant experience and background in the oilfield services industry and will make a strong, positive contribution to the Company. Justin gained knowledge of NGS though his prior tenure with a large institutional shareholder of ours and his immediately preceding (and continuing) tenure on our Board. I am currently assisting Justin with his transition into the position and the Company and I am confident with his grasp of the business, his ability to execute on the existing plans and his vision for the future. I remain the Chairman of the Board and a significant shareholder and feel extremely comfortable with the capabilities of our new management team.

We are fortunate to have these two gentlemen on our team.

We have also strengthened our Board of Director ranks. As mentioned, Justin Jacobs joined the Board in April of 2023, simultaneous with the appointment of Don Tringali. Don has significant Board experience and has been valuable in his perspectives. In October of 2023 Georganne Hodges also joined the Board. She comes to NGS with broad and varied energy experience and board background.

NGS has always had strong board membership, and we have been able to continue that level of performance while significantly refreshing our Board and enhancing our strong shareholder focus. The Company and the Board are well positioned to continue our growth and performance into the future.

Your continued trust and support is valuable as we navigate this dynamic energy landscape. We will strive to uphold our legacy of delivering superior equipment and service and driving shareholder value.

Sincerely,

Stephen Taylor

Chairman of the Board

404 Veterans Airpark Lane, Suite 300
Midland, Texas 79705

Important Notice Regarding the Availability of Online Voting for the Shareholder Meeting to be Held on Thursday, June 13, 2024

The Proxy Statement and annual report to shareholders are available at www.ngsgi.com and www.proxyvote.com

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held on Thursday, June 13, 2024

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Natural Gas Services Group, Inc., a Colorado corporation (the "Company"), will be held on Thursday, June 13, 2024 at 8:30 a.m., Central Time. The matters to be considered and voted upon at the Annual Meeting are as follows:

1. To elect three Directors to the Company's Board of Directors;
2. To consider an advisory vote on executive compensation of our named executive officers;
3. To ratify the appointment of Ham, Langston & Brezina LLP as the Company's independent registered public accounting firm for 2024; and
4. To transact such other business as may properly be presented at the meeting, or at any adjournment(s) of the meeting.

Location
At our offices at 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705.

Record Date
Shareholders of record as of April 22, 2024 (the "Record Date") will be entitled to attend and vote at the 2024 annual meeting of shareholders (the "Annual Meeting"). On that day, 12,437,074 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 during ordinary business hours for a period of ten (10) days prior to the Annual Meeting.

Delivery Date
On or about May 3rd, 2024, our proxy materials are first being mailed or made available to shareholders.

How to Vote
INTERNET
Visit www.proxyvote.com. You will need the multi-digit number included in your proxy card, voting instruction form or notice regarding the availability of proxy materials ("notice card").

PHONE
Call 1-800-690-6903 or the number on your proxy card, voter instruction form or notice card. You will need the multi-digit number included in your proxy card, voting instruction form or notice card.

MAIL
If you received a paper copy of the proxy materials by mail, you may send your completed and signed proxy card or voting instruction form to the address on your proxy card or voting instruction form.

IN-PERSON AT THE ANNUAL MEETING
If you plan to attend the meeting in-person and you are a shareholder of record, you will need to bring a picture ID and proof of ownership of your shares as of the Record Date. If your shares are held in the name of your broker, bank or other nominee and you want to vote in-person, then you will need to obtain a legal proxy from the institution that holds your common shares indicating that you were the beneficial owner as of the Record Date.

You may request a copy of the materials relating to our Annual Meeting, including the Proxy Statement and form of proxy for our Annual Meeting and our Annual Report by following the instructions on your notice card, or by contacting our Investor Relations team by telephone at (432) 262-2700 or by e-mail at ir@ngsgi.com.

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 in-person. Voting now will not prevent you from voting in-person at the meeting if you are a shareholder of record or if you hold a legal proxy from an institution that holds your shares and wish to do so.

BY ORDER OF THE BOARD OF DIRECTORS

April 29, 2024

/s/ Justin C. Jacobs

Justin C. Jacobs
Chief Executive Officer and Director

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

PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON THURSDAY, JUNE 13, 2024

GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation of proxies from the shareholders of the Company to be voted at our Annual Meeting of Shareholders (the "Annual Meeting") to be held at 404 Veterans Airpark Lane, Suite 300, Midland Texas, 79705 on Thursday**, June 13, 2024, 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 Director nominees and "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, 2023 is first being made available to shareholders beginning on or before May 3, 2024. This Proxy Statement, including the Notice of Annual Meeting, Proxy Card, and Annual Report on Form 10-K for the year ended December 31, 2023, 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 May 3, 2024, we will mail to all our shareholders a Notice of Internet Availability of Proxy Materials (the "Notice") in lieu of mailing a full printed set of the Meeting Materials. Accordingly, our Meeting Materials are first being made available to our shareholders on the Internet at **www.ngsgi.com** and **www.proxyvote.com** on or before May 3, 2024. 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 Meeting Materials to you in connection with our 2024 Annual Meeting of Shareholders, which will take place on Thursday, June 13, 2024. 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 Director and the other matters to be voted on at the meeting. The Proxy Statement also includes information about the voting process and requirements, the compensation of our Directors and named 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 three Directors, two of whom will serve until the Annual Meeting of Shareholders to be held in 2027 and one of whom will serve until the Annual Meeting of Shareholders to be held in 2025, or until his or her respective successor is elected and qualified;
2. To consider an advisory vote on executive compensation of our named executive officers; and
3. To ratify the appointment of Ham, Langston & Brezina LLP as the Company's independent registered public accounting firm for 2024.

In addition, your proxy gives the holders the power 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 each of the Director nominees (Proposal #1); and FOR the ratification of the appointment of Ham, Langston & Brezina LLP as our independent registered public accounting firm for 2024 (Proposal #3). With respect to Proposal #2, the Board of Directors recommends that you vote FOR approval, on an advisory basis, of the compensation programs of our named executive officers as set forth under the caption "Executive Compensation" of this Proxy Statement.

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

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

***Q:* Who is entitled to vote at our Annual Meeting of Shareholders?**

A: Holders of our outstanding common stock on April 22, 2024, are entitled to one vote per share on each of the items being voted on at the meeting. We refer to this date as the Record Date. On the Record Date, we had 12,437,074 shares of common stock outstanding. We have no other classes of stock outstanding.

***Q:* How do I vote my shares?**

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

- Over the Internet by visiting www.**proxyvote.com**, which you are encouraged to do so if you have access to the Internet. You will need the multi-digit number included in your proxy card, voting instruction form or notice of availability of proxy materials ("Notice Card");

- By telephone -- Call **1-800-690-6903** or the number on your proxy card, voting instruction form or notice card. You will need the multi-digit number included in your proxy card, voting instruction form or Notice Card;
- 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 -- If you plan to attend the meeting in person and you are a shareholder of record, you will need to bring a picture ID and proof of ownership of your common shares as of the Record Date. If your shares are held in the name of your broker, bank or other nominee and you want to vote in-person, then you will need to obtain a legal proxy from the institution that holds your shares indicating that you were the beneficial owner as of the Record Date. All in-person attendees will also be required to follow any security protocols issued by the building where the Annual Meeting is held.

If you physically attend the Annual Meeting and vote in-person, your vote during the meeting will replace any earlier vote.

The Notice provides instructions on how to access your proxy, which contains instructions on how to vote via the Internet or by telephone. Alternatively, you may vote by marking the Proxy Card you received in the mail and return it to the address set forth in the instructions contained in the Proxy Card. **Due to timing issues in connection with mail delivery, we recommend that you vote your shares over the Internet or by telephone.**

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. 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 Ham, Langston & Brezina LLP as our independent public accountants for 2024 (Proposal 3) is a matter considered "routine" under applicable exchange rules. The election of Directors (Proposal 1) and the advisory vote to approve the named executive officers' compensation programs (Proposal 2) are matters considered "non-routine" under applicable exchange rules. For purposes of the election of Directors 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 the nominees	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 and the proxy holders may vote on such business in their discretion.

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 (ii) the ratification of the appointment of Ham, Langston & Brezina 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 Ham, Langston & Brezina 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 present and 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 three matters described in this Proxy Statement. If you grant a proxy, either of the officers named as proxy holders, Justin C. Jacobs and John Bittner, 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, any one of the nominees is not available as a candidate for Director, the persons named as the proxy holder may vote your proxy for another candidate or other candidates nominated by our Board.

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

A: Yes. Please see the section entitled "Shareholder Proposals" in this Proxy Statement for information concerning making shareholder proposals and director nominations.

***Q:* Who is paying for this proxy solicitation?**

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

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

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

HOUSEHOLDING OF PROXY MATERIALS

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

If you share an address with another shareholder and receive only one set of proxy-related materials and would like to request a separate copy for this year's Annual Meeting or for any future meetings, please: (1) call our Investor Relations contact at (432) 262-2700; (2) send an email to ir@ngsgi.com; or (3) mail your request to Natural Gas Services Group, Inc., 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705, Attn: Investor Relations. Similarly, you may also contact us through any of these methods if you receive multiple copies of the materials and would prefer to receive a single copy in the future.

PROPOSAL 1 - ELECTION OF DIRECTORS

Our Board of Directors is divided into three classes, each class to be as nearly equal in number as possible. At each Annual Meeting of Shareholders, members of one of the classes, on a rotating basis, are elected for a three-year term. We currently have six Directors serving on our Board. Our Board may fill vacancies if a qualified candidate is vetted. The following table sets forth, by class, the members of our Board of Directors as of the date of this Proxy Statement:

Terms Expiring at the 2024 Annual Meeting	Terms Expiring at the 2025 Annual Meeting	Terms Expiring at the 2026 Annual Meeting
David L. Bradshaw	Donald J. Tringali	Justin C. Jacobs
Nigel J. Jenvey	Georganne Hodges*	Stephen C. Taylor
Georganne Hodges*		

*On October 26, 2023, our Board of directors was expanded and Ms. Hodges was appointed to the Board to fill the newly created vacancy. Although Ms. Hodges was placed in the class of director whose term expires at the 2025 annual meeting in order to comply with Colorado law in connection with staggered Boards, our Bylaws require that directors who are appointed by the Board to fill a vacancy must be submitted for election at the next annual shareholders' meeting.

Shareholders will be electing three Directors at the Annual Meeting. The Board is recommending the re-election of David L. Bradshaw and Nigel J. Jenvey to the Board of Directors to serve a three-year term expiring at the Annual Meeting of Shareholders in 2027. The Board is also recommending the election of Georganne Hodges to serve a one-year term expiring at the Annual Meeting of shareholders in 2025.

The person 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, the nominee becomes unavailable for any reason, which is not expected, the persons entitled to vote the proxy will vote for such substitute nominee, if any, as they determine in their sole discretion, or we may reduce the size of the Board.

Biographical information and qualifications for the persons nominated as a Director, and for each person whose term of office as a Director will continue after the 2024 Annual Meeting, is set forth below.

Nominees for Director

David L. Bradshaw

David L. Bradshaw, 69, joined our board in December of 2011. On May 17, 2022, Mr. Bradshaw was appointed as the Lead Independent Director and served in that role until May 2023. 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 B.B.A. in Accounting in 1976 and an M.B.A. in 1977, and is also a Certified Public Accountant.

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

__Nigel J. Jenvey__

Nigel. J. Jenvey, 51, was appointed as a Director of Natural Gas Services Group in April 2021. Mr. Jenvey is currently Executive - Strategy & Growth Initiatives at Baker Hughes and serves as a board member for its interests in a hydrogen production technology company called Ekona Power and the Long Duration Energy Storage Council, and previously held the position of Global Head of Carbon Management at their consultancy Gaffney, Cline & Associates. Prior to joining Baker Hughes, Mr. Jenvey spent eight years at British Petroleum as the company's head of Carbon, Capture, Use and Storage (CCUS) and carbon solutions manager. He also led similar efforts at Maersk Oil as Technical Director of carbon & climate, and served in various managerial and project leadership roles at Royal Dutch Shell, including Shell's global Enhanced Oil Recovery (EOR) Center of Expertise and European operating business. He began his career as a petroleum engineer at Texaco in 1995 supervising offshore oil and gas production operations in the North Sea. Mr. Jenvey is an industry leader in Carbon Management and expert in CCUS having been involved in leading projects across the world since 2004. These have included providing study leadership to the National Petroleum Council, industry capability development in the Society of Petroleum Engineers, and providing advice to various major energy companies in the US and Canada. Mr. Jenvey is the Editor of the annual Decarbonization feature in the SPE Journal of Petroleum Technology and has been a peer reviewer to the International Energy Agency. Mr. Jenvey has also provided testimony to Congress on CO2 Capture technologies. Mr. Jenvey holds a Bachelor degree (Hons.) in Mining Engineering from the University of Leeds and both a Diploma and a Master of Science degree in Petroleum Engineering from Imperial College in London.

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

__Georganne Hodges__

Georganne Hodges, age 58, was appointed as a Director of Natural Gas Services Group in October 2023. Ms. Hodges has more than 30 years of wholesale and retail energy experience, including national public accounting firm experience and extensive experience across the energy industry value chain. She was most recently Executive Vice President of Supply, Trading & Logistics at Motiva Enterprises, LLC, until January 2023. Prior to joining Motiva, she held the position of CFO with Spark Energy, where she successfully completed the company's initial public offering as well as several acquisitions. She also held the position of CFO with Direct Energy, as well as other senior financial roles since beginning her career with Arthur Andersen in 1987. Since March 2023, she has served as a member of the board of directors and Audit Committee of PBF Energy (NYSE:PBF). Since 2022, she has served as a member of the board of directors of BWC Terminals LLC, where she serves on the Audit Committee and the Nominating and Corporate Governance Committee. Beginning in May 2021, she served as a member of the board of directors of TransAlta Renewables Inc. (formerly (TSX: RNW)) where she was the Chair of the Audit Committee until her resignation from the Board in early October 2023 in connection with an acquisition of that company. Ms. Hodges holds a B.B.A. in Accounting and Finance from the Hankamer School of Business at Baylor University.

Ms. Hodges brings significant public company accounting and disclosure experience, along with public company Board and related committee experience to the Company. In addition, her significant experience as a CFO and other senior financial roles in the energy industry adds significant value to our Board and management.

Required Vote for This Proposal

The election of each Director nominee requires the affirmative vote of a majority of the votes cast at the Annual Meeting with respect to the nominee. The number of shares voted "for" each 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. Abstentions and broker non-votes are not counted as votes cast in the election of directors and therefore will not have any effect on the outcome of the vote.

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 shareholder vote. The Nominating and Corporate Governance Committee ("Nominating 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 Nominating Committee shall consider all factors it deems relevant. Our Board will act on the Nominating Committee's recommendation within 90 days following certification of the shareholder 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 Nominating Committee's recommendation or Board action regarding whether to accept the resignation offer. If the number of members of the Nominating Committee are required to tender their resignations pursuant to the resignation policy in the same election so that a quorum of the committee cannot be achieved, then the other 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 2025

Donald J. Tringali

Donald J. Tringali, 66, serves as the Chief Executive Officer of Augusta Advisory Group, a boutique financial and business consulting firm providing a full range of executive, operations and corporate advisory services to companies, a position he has held since founding the firm in 2001. Prior to founding Augusta Advisory Group, Mr. Tringali served as the Executive Vice President of Telemundo Group, Inc., a major media company serving the Hispanic population in the United States, from 1996 to 2001. Mr. Tringali has extensive experience serving on the boards of directors of public and private companies, including service as chairman, as well as on the audit, compensation, and nominating and governance committees of those companies. He currently serves on the boards of directors of Wavedancer, Inc., a Nasdaq-traded provider of information technology consulting and software development services for the government and the private sector, Swiss Water Decaffeinated Coffee, Inc., a green coffee decaffinator traded on the Toronto Stock Exchange, and POSaBIT Systems Corporation, a point-of-sale payments company focusing on the cannabis industry that is traded on the Canadian Stock Exchange. Mr. Tringali served as a director, and later as the Chairman of the Board, of National Technical Systems, Inc., a Nasdaq-traded international testing and engineering firm, from 1999 through its sale to a private equity firm in 2013. He is the former Executive Chairman of the Board of Cartesian, Inc., a Nasdaq-traded international telecommunications consulting company that was sold to a private equity group in 2018. Mr. Tringali began his career as a corporate attorney in Los Angeles, where he represented public and private companies in general business matters and mergers and acquisitions transactions. Mr. Tringali holds a Bachelor of Arts in Economics from UCLA and a Juris Doctor from Harvard Law School.

Mr. Tringali's extensive board experience, including as a member or chairman of audit, compensation, and nominating and governance committees, combined with his experience as a public company executive, will enable him to contribute valuable insights into effective governance and oversight systems at the Company that will improve value for all shareholders.

Mr. Tringali was appointed to the Board pursuant to a Cooperation Agreement entered into by and among the Company and entities affiliated with Mill Road Capital Management LLC.

Georganne Hodges — See above for Ms. Hodges' biographical information and qualifications.

Continuing Directors Whose Term Expires in 2026

Justin C. Jacobs

Justin C. Jacobs, 49, currently serves as Chief Executive Officer of the Company, effective as of February 12, 2024. Prior to this time, Mr. Jacobs was a Managing Director and a member of the Management Committee at Mill Road Capital Management LLC, where he had worked since 2005. Mill Road Capital Management is an investment firm focused on investments in small, publicly traded companies. The firm manages multiple funds with approximately $1.0 billion of assets under management. Prior to Mr. Jacob's appointment as our CEO, he resigned all of his positions with Mill Road Capital and its affiliated entities. From 1999 to 2004, Mr. Jacobs was employed at LiveWire Capital, an investment and management group backed primarily by The Blackstone Group and Thomas Lee Partners that focused on operationally intensive buyouts of middle market companies. While employed at LiveWire, he held various operational positions in numerous portfolio companies, including interim Chief Operating Officer, in addition to investment responsibilities. Before joining LiveWire, Mr. Jacobs was an investment professional in the private equity group at The Blackstone Group from 1996 to 1999. Mr. Jacobs is currently a member of the Board of Directors of Swiss Water Decaffeinated Coffee, Inc. He previously served as a member of the Boards of Directors of several public companies, including Ecology and Environment, Inc., Galaxy Nutritional Foods, Inc., National Technical Systems, Inc., and School Specialty, Inc., as well as numerous private companies, including Lignetics, Inc., Mother's Market & Kitchen, Inc., PRT Growing Services LTD and Rubios Restaurants, Inc. Mr. Jacobs holds a B.S. from the McIntire School of Commerce at the University of Virginia with concentrations in accounting and finance.

Mr. Jacobs provides the Board with more than 25 years of experience as a public investor, private equity investor, operator, and member of Board of Directors; he also has significant experience in turnaround situations. He has expertise in capital markets transactions, mergers and acquisitions, capital allocation and strategic reviews, as well as significant experience with executive compensation, shareholder communications and the development of both short-and long-term strategic growth plans. In addition, he has significant experience in both operational and oversight roles, particularly with small, publicly traded companies, as well as with corporate governance practices and shareholder value creation.

Mr. Jacobs was appointed to the Board in 2023 pursuant to a Cooperation Agreement entered into by and among the Company and entities affiliated with Mill Road Capital Management LLC, prior to becoming CEO of the Company in February 2024.

Stephen C. Taylor

Stephen C. Taylor, 70, was President and Chief Executive Officer of Natural Gas Services Group from January 2005 until his retirement from the positions effective May 17, 2022. In connection with the resignation of John W. Chisholm, who was appointed as our Interim Chief Executive Officer upon Mr. Taylor's retirement, on November 11, 2022, the Board appointed Mr. Taylor to serve as Interim President and Chief Executive Officer until such time as a permanent President and Chief Executive Officer could be hired. Mr. Taylor continued in his role as Interim President until October 9, 2023, at which point Brian Tucker joined the Company as President and Chief Operating Officer. Subsequent to that date, Mr. Taylor continued in his role of Interim Chief Executive Officer of the Company until February 12, 2024. Mr. Taylor currently serves as the Chairman of our Board of Directors.

Mr. Taylor was elected as a Director of Natural Gas Services Group at the Annual Meeting of Shareholders in June 2005. Effective January 1, 2006, he was appointed Chairman of the Board. 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. where he held the position of General Manager — U.S. Operations until 2024. Mr. Taylor holds a Bachelor of Science degree in Mechanical Engineering from Texas Tech University and a Master of Business Administration degree from the University of Texas at Austin.

Mr. Taylor's senior management experience in the natural resources industry provides the Board and our company with significant insight into our business. Mr. Taylor's engineering and advanced business training uniquely qualifies him to provide leadership, technical expertise and financial acumen to our Board.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Natural Gas Services Group's Board of Directors held four meetings in 2023. 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 or she served (during the periods that he or she served). The Board acts from time to time by unanimous written consent in lieu of holding a meeting.

Our non-management Directors hold regularly scheduled executive sessions in which those Directors meet without management participation. Generally, our current Lead Director, Donald J. Tringali, presides over these sessions.

We typically schedule a Board meeting in conjunction with our Annual Meeting of Shareholders. We expect our Directors to attend each Annual Meeting, absent a valid reason, such as illness or an unavoidable conflict. Last year, all of the individuals then serving as Directors attended our 2023 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 and their members are described and identified below.

NAME	AUDIT COMMITTEE	COMPENSATION COMMITTEE	NOMINATING AND CORPORATE GOVERNANCE COMMITTEE	SAFETY AND SUSTAINABILITY COMMITTEE
David L. Bradshaw	X*	X		X
Georganne Hodges	X	X	X*	
Nigel J. Jenvey	X		X	X*
Donald J. Tringali		X*	X	X

*Chair Person

The 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, including compliance with the Sarbanes-Oxley Act of 2002;
- discussing with management policies with respect to risk assessment and risk management;
- hiring our independent registered public accounting firm;
- monitoring the independence and performance of our independent registered public accounting firm;
- maintaining, through regularly scheduled meetings, a line of communication between the Board, our financial management and independent registered public accounting firm; and
- overseeing compliance with our policies for conducting business, including ethical business standards, our cybersecurity policy.

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 identified above are independent, as defined under the applicable NYSE rules and listing standards. In addition, our Board has determined that both David L. Bradshaw and Georganne Hodges are qualified as an "audit committee financial expert" as that term is defined in the rules of the United States Securities and Exchange Commission. The Audit Committee met eight times during the last fiscal year. The Audit Committee has also received from, and discussed with, Ham, Langston & Brezina LLP, our independent registered public accounting firm, the matters required to be discussed by Public Accounting Oversight Board Auditing Standard No. 1301 (AS 1301) (Communications with Audit Committees).

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

The Compensation Committee

The primary functions of our Compensation Committee include:

- assisting the Board in overseeing the management of our human resources;
- evaluating our Chief Executive Officer's performance and compensation;
- formulating and administering our overall compensation principles and plans; and
- evaluating executive 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 equity or equity derivative awards under the 2019 Equity Incentive Plan, as well as other long-term incentives payable in cash. The Compensation Committee also administers our Clawback Policy relating to the recovery of certain incentive compensation in connection with specified accounting restatements.

Our Board has determined that all of the members of the Compensation Committee identified above are independent, as defined under the applicable NYSE rules and listing standards.

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 2023, any compensation committee interlock (in other words, no executive of our company serves as a Director or on the compensation committee of a company that has one or more executives serving on our Board or our Compensation Committee).

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

The Safety and Sustainability Committee

The primary functions of our Safety and Sustainability Committee ("S&S") is overseeing and providing guidance on matters related to safety, occupational health, and sustainability practices with the Company. The Committee's primary objectives are to ensure the well-being of employees, contractors and communities in which we operate, and to promote sustainable business practices aligned with environmental stewardship.

Our Board has determined that each of the S&S Committee members identified above were independent, as defined under the applicable NYSE rules and listing standards.

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

The Nominating and Corporate Governance Committee

The primary functions of our Nominating and Corporate Governance Committee ("Nominating Committee") are (1) identifying, evaluating, and recommending individuals qualified to become Board members; (2) determination of the composition of the Board and its committees; (3) establishing and maintaining effective corporate governance policies; and (4) evaluating the performance of the Board and its committees. One of the Committee's goals is to nominate candidates who possess a range of experiences and backgrounds which will contribute to the Board's overall effectiveness in meeting its duties and forwarding the goals of our company.

Our Board of Directors has determined that each of the Nominating Committee members identified above were and are independent as defined under the applicable NYSE rules and listing standards.

Any shareholder may obtain free of charge a printed copy of our Nominating and Corporate 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 or by visiting the "Governance" tab on the investor relations page of our website at www.ngsgi.com.

Board Nominations

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

The Nominating Committee will consider a Director candidate recommended by a shareholder. A candidate must be highly qualified based on the factors noted above and be both willing and expressly interested in serving on the Board. A shareholder wishing to recommend a candidate for the Committee's consideration must follow Securities and Exchange Commission Rule 14a-8 or our advance notice provisions contained in our Bylaws. Please see "Shareholder Proposals" on page 56 of this Proxy Statement for further information.

Director Independence

As required under the listing standards of the NYSE, a majority of the members of our Board must qualify as independent, as affirmatively determined by our Board. The standards relied upon by the Board in determining whether a director is "independent" are those set forth in the rules of the NYSE. The NYSE generally defines the term "independent director" as a person other than an executive officer or employee of a company, who does not have a relationship with the company that would interfere with the director's exercise of independent judgment in carrying out the responsibilities of a director. Because the Board believes it is not possible to anticipate or provide for all circumstances that might give rise to conflicts of interest or that might bear on the materiality of a relationship between a director and the Company, the Board has not established specific objective criteria, apart from the criteria set forth in the NYSE rules, to determine "independence." In addition to the NYSE criteria, in making the determination of "independence", the Board considers such other matters including, without limitation, (i) the business and non-business relationships that each independent director has or may have had with the Company and its other directors and executive officers, (ii) the stock ownership in the Company held by each such director, (iii) the existence of any familial relationships with any executive officer or director of the Company, and (iv) any other relevant factors which could cause any such Director to not exercise his independent judgment. Our Nominating and Governance Committee evaluates all relevant transactions and relationships between each director then on the Board, and any of his or her family members, and the Company, senior management, and independent registered accounting firm. Based on this evaluation and the recommendation of the Committee, our Board determined that each of the following four current members of the Board is "independent" within the meaning of applicable listing standards of the NYSE and under the standards set forth in our Corporate Governance Guidelines which are consistent with the NYSE listing standards: Nigel J. Jenvey, David L. Bradshaw, Georganne Hodges and Donald J. Tringali.

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

The Chairman of the Board is selected by the members of our Board of Directors. Our Board does not have a policy as to whether the roles of Chairman of the Board of Directors and CEO should be separate or combined.

Throughout 2023, Stephen C. Taylor, our long-time Chairman and CEO, served as our Chairman of the Board and Interim CEO. The Board believed this was the most effective Board leadership structure at the time due to Mr. Taylor's tenured experience in the compressor industry and longstanding history as the Company's CEO, which made him the best qualified Director to act as our Chairman of the Board. In May, 2023, shortly after Donald J. Tringali and Justin C. Jacobs were appointed to the Board, the independent Directors appointed Mr. Tringali to serve as Lead Independent Director, succeeding director David Bradshaw in the role.

With Mr. Taylor's retirement in February 2024 and the appointment of Justin Jacobs as the Company's new CEO, the independent Directors believed that roles of CEO and Chairman should be bifurcated, and that Mr. Taylor should remain Chairman of the Board considering his in-depth knowledge of the issues, opportunities, and challenges facing the business. The independent Directors believe that as Chairman, Mr. Taylor is best suited to act as the Board's liaison and provide assistance to Mr. Jacobs in connection with his recent appointment as our new Chief Executive Officer, and that the combination of Mr. Taylor as Chairman and Mr. Tringali as Lead Independent Director create the best leadership structure for the Board.

Except as set forth below, each of our Directors, other than Mr. Taylor, was and is independent in 2023, and the Board believes that the independent Directors provide effective oversight of management. In connection with Mr. Jacobs' appointment as Interim Chief Executive Officer in February 2024, under NYSE rules he was no longer be deemed independent while acting in that capacity. The Board may subsequently decide, however, to change that leadership structure. 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:

- In 2023, all members of the Board were independent Directors except for Stephen C. Taylor. In February 2024, Justin Jacobs was appointed as our new CEO; thus, Mr. Jacobs is no longer an independent Board member.
- The establishment of the Lead Director position, described below, which assumes the role of ensuring fair, open and independent discussions and decisions amongst the Board. Donald J. Tringali is our current Lead Independent Director.
- Each of the Board's four standing 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.
- A review and determination of our CEO and other executive officers' compensation and performance remains within the purview of the Compensation Committee, which is assisted by an independent compensation consultant.
- 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 Independent Director. The Lead Independent 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. David Bradshaw was our Lead Independent Director prior to May 2023, at which time Donald Tringali assumed the role as our Lead Director

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 of Directors also has an active role in oversight of our cybersecurity risks and is assisted by our Manager of Information Technology and other management personnel in the exercise of these responsibilities. In connection with this oversight, we have adopted a Cybersecurity Event Plan which outlines how we identify and manage our cybersecurity risk.

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

Cooperation Agreement

On April 28, 2023, the Company entered into a Cooperation Agreement (the "Agreement") with Mill Road Capital III, L.P., a Cayman Islands exempted limited partnership, and Mill Road Capital III GP LLC, a Cayman Islands limited liability company (such parties collectively, the "Mill Road Parties") pursuant to which the Company agreed to appoint Justin C. Jacobs and Donald J. Tringali (the "Appointed Directors") to its Board and agreed to include the Appointed Directors as part of the Company's slate of nominees for election to the Board at the 2023 annual meeting of shareholders. Mr. Tringali was appointed to fill an existing vacancy on the Board. In addition, in connection with the Agreement, on April 28, 2023, Leslie A. Beyer resigned from the Board and Mr. Jacobs was appointed to fill the vacancy on the Board in connection with her resignation. The Board determined that each of Messrs. Jacobs and Tringali satisfies the requirements to serve as an independent director of the Company under applicable requirements of the New York Stock Exchange.

As part of the Agreement, the Mill Road Parties agreed, among other things, (i) to customary standstill provisions, and (ii) to vote its shares in favor of the Board's slate of directors at the Annual Meeting. In addition, the Company reimbursed the Mill Road Parties for documented out-of-pocket fees and expenses incurred in connection with the nomination of directors of the Company by the Mill Road Parties. The Cooperation Agreement also contains customary mutual non-disparagement provisions.

The cooperation period, including the standstill restrictions on the Mill Road Parties, will generally terminate the day after the 2025 deadline for shareholders to submit a notice to nominate one or more directors under the Company's Bylaws; provided, however, if the Company does not irrevocably agree with the Mill Road Parties to re-nominate and support for re-election the Appointed Director whose term ends on the date of the 2025 annual meeting of shareholders at least 60 days before the 2025 nomination deadline to submit a notice to nominate one or more directors under the Company's Bylaws, then the cooperation period will expire 30 days prior to the 2025 deadline. The standstill provisions may also terminate upon a breach of the Agreement by the Company or in connection with the public proposal of certain extraordinary corporate transactions.

The foregoing description of the Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Agreement which has been filed with the SEC on May 5, 2023 as an exhibit to a Current Report on Form 8-K.

Insider Trading Policy

Our Board has adopted an Insider Trading Policy for employees and directors to promote compliance with federal and state securities laws. The policy prohibits certain persons who are aware of material non-public information about the Company from: (i) trading in securities of the Company; or (ii) providing material non-public information to other persons who may trade on the basis of that information. When material non-public information about us may exist and may have an influence on the marketplace, a trading blackout period is placed in effect by management. In addition, our Insider Trading Policy also applies to family members, other members of a person's household, and entities controlled by a person covered by this Insider Trading Policy. Officers, directors, and designated employees, as well as the family members and controlled entities of such persons, may not engage in any transaction in Company securities without first obtaining pre-clearance of the transaction.

Under the Insider Trading Policy, directors, executive officers and other employees are prohibited from entering into any hedging or monetization transactions relating to our securities or otherwise trading in any instrument relating to the future securities' price. Our Insider Trading Policy also prevents directors and executive officers from pledging our securities as collateral for loans or holding our securities in a margin account.

Clawback Policy

Our Board of Directors has adopted a clawback policy, as required by Section 10D of the Exchange Act and the listing standards adopted by the NYSE. In the event of certain accounting restatements, this policy requires us to pursue recovery from current and former executive officers (as defined under the applicable rules) of any amount of incentive-based awards paid during the three years preceding the accounting restatement that exceeds the amount that would have otherwise been paid if calculated based on the restated financial reporting measure, calculated on a pre-tax basis.

Code of Ethics

Our Board of Directors has adopted a Code of Business Conduct and Ethics ("Code"), which is posted on our website at www.ngsgi.com. You may also obtain a copy of our Code by requesting a copy in writing at 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705 or by calling us at (432) 262-2700.

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

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

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

CORPORATE RESPONSIBILITY

Natural Gas Services Group believes that effective corporate governance is a combination of oversight, responsiveness and positioning of our business operations on a day-to-day basis with a focus on zero safety incidents, reduction of our environmental impact, the health of our workers and the communities in which we operate, accountability in corporate governance and progress in our social activities.

Our Board of Directors believes that integrating these values into our everyday practices creates a holistic approach to good business 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 and financial performance allows us to achieve continuous improvement, providing a mechanism to optimize the interests of all stakeholders.

Further demonstrating our commitment to safety, the Board of Directors decided to rename and update our charter for the Safety and Sustainability Committee to proactively engage with management and other NGS stakeholders on key safety, sustainability and environmental matters ("SS&E"). The Committee, chaired by director Nigel J. Jenvey – a leader in sustainability and environmental issues in the energy industry – will focus on continuous improvement of the Company's SS&E programs and policies.

Our Environmental Initiatives

We continuously work to reduce 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.

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

- We have and continue to pursue the most energy efficient and emissions-controlled engine systems available for our compression equipment. The majority of our engines have the latest catalytic technology with all newer models having multi-point air-fuel ratio (AFR) controllers to provide the cleanest fuel burn available, exceeding EPA standards. These advanced systems continuously monitor multiple engine 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 state and federal air emissions regulations. Additionally, we perform preventative maintenance on all engine systems and comprehensive emissions tests to ensure optimum performance. The Company is acutely focused on reducing our environmental impact on noise, emissions and carbon footprint.

- In a portion of our mechanical compression packages, we have meaningfully reduced our oil consumption and associated disposal issues with a unique engine and compressor lubricating systems.

- In our Michigan service location, we have installed two oil burner systems which allows us to efficiently recycle waste oil into energy and heat capacity for our service facility.

- We also work with our customers and suppliers toward policies and processes that reduce the environmental impact of our work. We continuously engage with our top customers to share best practices, new technologies and operating innovations that can be implemented to improve our collective environmental footprint.

- 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.

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

Our Safety and Social Initiatives

In 2023, we continued to invest in significant employee training and development. The Company remains committed to a diverse and inclusive workforce with both executive management and the Board of Directors focused on ensuring equality of opportunity in all our human resources practices. As of the end of 2023, substantially all of our office employees are working on-site.

The Company also believes that workplace and workforce safety is a hallmark of our safety and social responsibility initiatives. As a result, we also incorporate our Health, Safety, Environment and Quality ("HSEQ") initiatives into these programs and policies. In addition to the protection of the environment, we are steadfastly committed to the safety of our employees and other stakeholders as well as the physical and mental well-being of all members of the NGS family. Our commitment centers on mitigating risks to employees and those with whom they interact and maintaining safe work environments and procedures. In connection with our commitment, the Company employs a Manager of Safety who oversees our safety initiative and protocols, and provides safety training. Our focus on regular, required safety and procedure training helps ensure a consistent and safe work environment. Our strong safety program has allowed us to consistently post one of the lowest Total Recordable Incident Rates ("TRIR") in the industry. In 2023, we had a TRIR of zero, delivering our goal of everyone going home safely to their families.

Our Governance Initiatives

In 2023, we made several changes to our Board of Directors and governance documents which we believe are important indications of the Company's commitment to continuous improvement in corporate governance and responsibility.

In early 2023, we appointed Donald J. Tringali and Justin C. Jacobs to our Board. Mr. Tringali has extensive board experience, including prior experience as a member or chairman of audit, compensation, and nominating and governance committees, combined with his experience as a public company executive. In addition, with a degree in economics from UCLA and law degree from Harvard Law School, we believe Mr. Tringali contributes valuable insights into effective governance and oversight systems at the Company that will improve value for all shareholders. Considering Mr. Tringali's experience and attributes, we also appointed Mr. Tringali as lead independent director, which had the benefit of reducing the workload of David Bradshaw, our previous lead independent director, so that he could focus on his duties as Chairman of our Audit Committee.

At the same time, we also appointed Mr. Jacobs who provides the Board with more than 25 years of experience as a public investor, private equity investor, operator, and member of Boards of Directors. He has significant expertise in capital markets transactions, mergers and acquisitions, capital allocation and strategic reviews, as well as significant experience with executive compensation, shareholder communications and the development of both short-and long-term strategic growth plans. In addition, his significant experience in both operational and oversight roles, particularly with small, publicly traded companies, positions him well to help the Company navigate its current management position and to establish disciplined governance practices that will focus the Company's management on shareholder value creation. Subsequently, in January 2024 Mr. Jacobs became our Chief Executive Officer to replace Stephen Taylor, our long-time CEO who retired.

Also, in October 2023, we appointed Georganne Hodges to our Board. Ms. Hodges holds degrees in accounting and finance and has more than 30 years of energy industry experience, including national public accounting firm experience. In addition, she has held CFO and other senior financial roles at public companies and has significant experience as a member of audit and nominating/governance committees. Ms. Hodges qualifies as an "audit committee financial expert" as that term is defined in the rules of the United States Securities and Exchange Commission, which further strengthens the expertise on our Audit Committee.

Finally, in the latter part of 2023, the Board did an extensive review of its committees and related charters. In that review, the Board determined to change the duties and names of two of its committees. First, the former Environmental, Social and Governance Committee was renamed the Safety and Sustainability Committee. In connection with the Company's fabrication, maintenance and installation of large compressors, the safety of its workforce is of paramount importance. Also, sustainability takes a broader view by encompassing environmental, social and economic viewpoints. Second, the corporate governance aspect of the Board's duties has been moved to the newly chartered Nominating and Governance Committee. As corporate governance tends to be unrelated to safety and sustainability, and is customarily combined with a board's nominating responsibilities, the Board believed that combining governance and nominating responsibilities into the more common Nominating and Governance Committee was a more effective structure for board governance. In connection with the foregoing, the Board revised and updated all of its committee charters and its corporate governance guidelines, copies of which can be viewed on the Company's website on its investor page.

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.

Justin C. Jacobs, 49, was appointed as our Chief Executive Officer, effective February 12, 2024. Prior to Mr. Jacobs' employment with the Company, most recently he was a Managing Director and a member of the management committee of Mill Road Capital Management LLC, where he worked since 2005. Mill Road Capital Management is an investment firm focused on investments in small, publicly traded companies. From 1999 to 2004, Mr. Jacobs was employed at LiveWire Capital, an investment and management group backed primarily by The Blackstone Group and Thomas Lee Partners that focused on operationally intensive buyouts of middle market companies. While employed at LiveWire, he held various operational positions in numerous portfolio companies, including interim Chief Operating Officer, in addition to investment responsibilities. Before joining LiveWire, Mr. Jacobs was an investment professional in the private equity group at The Blackstone Group from 1996 to 1999. Mr. Jacobs is currently a member of the Board of Directors of Swiss Water Decaffeinated Coffee, Inc. He previously served as a member of the Boards of Directors of several public companies, including Ecology and Environment, Inc., Galaxy Nutritional Foods, Inc., National Technical Systems, Inc., and School Specialty, Inc., as well as numerous private companies, including Lignetics, Inc., Mother's Market & Kitchen, Inc., PRT Growing Services LTD and Rubios Restaurants, Inc. Mr. Jacobs holds a B.S. from the McIntire School of Commerce at the University of Virginia with concentrations in accounting and finance.

Brian L. Tucker, 49, was appointed as our President and Chief Operating, effective October 9, 2023. Prior to Mr. Tucker's employment with the Company, most recently he served as a Senior Vice President Operations for Patterson UTI Energy. Immediately before his time at Patterson, he held the role of Chief Operating Officer of Pioneer Energy Services. During his time at Pioneer, Mr. Tucker also held the roles of Senior Vice President Operations and Drilling/Well Services President before being named the COO in 2019. Prior to joining Pioneer, Mr. Tucker was a Vice President for Helmerich and Payne (H&P) serving as the South Texas Vice President of Operations from 2010 to 2012. From 2004 to 2010, Mr. Tucker served as drilling engineer and operations manager for the Barnett Shale, South Texas, and West Texas operations for H&P. Originally from Odessa TX, Mr. Tucker served eight years as an officer in the U.S. Army, is a West Point graduate with a Bachelor of Science in Systems Engineering and completed the Harvard Business School Advanced Management Program in 2014. He currently serves as a board member of Catholic Charities Archdiocese of San Antonio.

John Bittner, 56, was appointed as our Interim Chief Financial Officer, effective October 9, 2023. Mr. Bittner's services as Interim Chief Financial Officer and the compensation therefor are provided for pursuant to an addendum to engagement agreement between the Company and Accordion Partners LLC ("Accordion"), a financial consulting firm which the Company has engaged. Mr. Bittner is Senior Managing Director with Accordion having over 25 years of strategic, financial and operational advisory experience. Mr. Bittner has been employed by Accordion and predecessor companies since 2017. Prior to this, Mr. Bittner served as a senior executive for several leading consulting practices, most recently serving as a Partner in the Business Recovery Services practice of PwC and as a Partner in the Corporate Advisory and Restructuring Services practice of Grant Thornton LLP. Throughout his career, Mr. Bittner has had a wide range of experience in various industries including the energy and manufacturing sectors. Mr. Bittner earned an M.B.A. from the University of Michigan, Ann Arbor and a B.B.A. in Business Administration from Texas A&M University. He is a Certified Public Accountant, licensed in Texas.

James R. Hazlett, 68, currently our Chief Technical Officer, has served in this capacity and as our 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.

EXECUTIVE COMPENSATION

Note From the Compensation Committee

Fellow Shareholders:

As you consider your vote on this year's Say on Pay proposal related to the Company's executive compensation decisions, we encourage you to review the following Compensation Discussion and Analysis ("CD&A") disclosure. While the Company, a "Smaller Reporting Company" pursuant to Regulation S-K of the Securities and Exchange Commission, is not required to provide these robust compensation disclosures, the Board and Compensation Committee believe furnishing this fulsome CD&A exemplifies their commitment to best-in-class governance with respect to the Company's executive compensation program.

2023 was a year of continued transformation for the Company, which included leadership succession at the Board, Compensation Committee, and executive officer levels. For most of 2023, both the CEO and CFO positions were filled on an "interim" basis. As a result, there were some anomalies in executive compensation for the year including very limited participation by Named Executive Officers in our normal compensation structures. During this unique year, the Compensation Committee continued its diligent work to ensure good governance relating to executive compensation, including responding appropriately to shareholder and shareholder advisory group concerns pertaining to the Company's executive compensation programs, and designing improvements to be implement in 2024.

As evidenced by this CD&A, the Compensation Committee believes the Company's executive compensation program during 2023, and going forward, was and is aligned with market best practices and will continue to support the execution of the Company's strategy.

The Compensation Committee is committed to ensuring it maintains effective communications with the Company's stakeholders on issues related to compensation and governance. It believes this CD&A, along with shareholder engagement activities executed in 2023, meet this commitment and it looks forward to continuing enhancements to the Company's compensation programs that improve our business and maximize value creation for all stakeholders.

The Compensation Committee appreciates your support of Natural Gas Services Group and your affirmational vote "FOR" Item 2 in this year's proxy.

The Compensation Committee [1]
Natural Gas Services Group, Inc.
Donald J. Tringali, Chairman
David L. Bradshaw
Justin C. Jacobs

[1] Donald J. Tringali was appointed to the Compensation Committee and named Chair on May 9, 2023. Justin C. Jacobs was appointed to the Compensation Committee on May 9, 2023, and served on the Committee until his appointment as CEO of the Company on February 12, 2024.

COMPENSATION DISCUSSION & ANALYSIS

CD&A Overview

This CD&A provides an overview of the objectives and elements of our executive compensation program, as well as a discussion on the rationale behind the compensation earned by the Company's Chief Executive Officer and other Named Executive Officers (collectively, "NEOs") based on performance and contributions in fiscal year 2023. Also included is a discussion of the actions taken by the Compensation Committee in response to shareholder feedback regarding the NEOs' compensation program delivered through both the Say on Pay vote at the Company's 2023 Annual Meeting of Shareholders and through shareholder engagement discussions. The CD&A is a supplement to, and should be used in conjunction with, the compensation tables and related narratives of this Proxy Statement.

2023 Compensation Highlights

- Compensation Committee reconstituted in May 2023 with two new members (out of three) and a new chair.
- Say on Pay Proposal passes with over 72% of the vote.
- New Compensation Committee engages in shareholder outreach campaign to solicit input on compensation governance matters.
- New Compensation Committee redesigns Long Term Incentive Plan and other elements of executive compensation program to more align with market and good governance practices beginning with 2024.
- Executive leadership transition required interim Chief Executive and Chief Financial Officers for most of 2023, resulting in an anomalous compensation year and overall lower executive compensation.

2023 Financial and Operational Highlights

- Company achieves record Total Revenue of $121,167,000, a 43% increase over 2022
- Company achieves record Adjusted EBITDA(1) of $45,779,000, a 57% increase over 2022
- Company achieves a Total Shareholder Return of 40%, ranking second among its peer group in relative TSR and placing it in the 92nd percentile.
- Company achieves exemplary safety record, with zero recordable safety incidents and zero TRIR for 2023.

(1) Adjusted EBITDA is a non-GAAP financial measure that we define as net income (loss) before interest, taxes, depreciation and amortization, as well as an increase in inventory allowance and inventory write-offs, retirement of rental equipment, non-recurring severance expenses and non-cash equity compensation expenses. Non-GAAP measures are reconciled to GAAP financial measures in Item 7 of our Annual Report on Form 10-K under "Management 's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures".

Executive Officers during 2023

Name	Position
Stephen C. Taylor	Chairman of the Board, Interim President and Chief Executive Officer (1)
Brian Tucker	President and Chief Operating Officer (2)
James R. Hazlett	Chief Technical Officer
John Bittner	Interim Chief Financial Officer (3)
JD Faircloth	Former Interim Chief Financial Officer (4)
Micah C. Foster	Former Vice President and Chief Financial Officer (5)

1. The Company entered into an Interim CEO Agreement effective June 30, 2023. Subsequently, the Company entered into an extension of the Interim CEO Agreement effective December 31, 2023, Mr. Taylor retired In February 20244 upon the employment of Just Jacobs as our permanent CEO.

2. The Company appointed Mr. Tucker to his current role effective October 9, 2023.
3. The Company appointed Mr. Bittner to his current role effective October 9, 2023.
4. Mr. Faircloth departed the Company effective October 9, 2023, in connection with the appointment of Mr. Bittner.
5. Mr. Foster resigned from his position on February 28, 2023.

Leadership Transition Impact on 2023 Executive Compensation

The Company's 2023 executive compensation program (discussed in detail below) consisted of elements typically found in executive compensation programs for its peer companies, including specific elements that link executive compensation with long-term shareholder interests. In general, an executive's compensation package includes three elements: a base salary; an annual cash bonus opportunity pursuant to the Company's Short Term Incentive Plan ("STIP"); and an equity opportunity pursuant to the Company's Long Term Incentive Plan ("LTIP").

However, because of the transitional nature of the Company's executive officers in 2023, the actual compensation paid to executives (set out in the Compensation Tables below) varied significantly from the typical compensation package. The impacts of the leadership transition on 2023 executive compensation are summarized below:

Chief Executive Officer

As noted in last year's Proxy Statement, following the resignation of Mr. John Chisholm from his role as Interim President and Chief Executive Officer, Mr. Stephen Taylor was appointed by the Board on November 11, 2022, to serve as Interim President and Chief Executive Officer until a permanent Chief Executive Officer was appointed.

Mr. Taylor, the long-time Chief Executive Officer of the Company, had retired from the CEO position on May 17, 2022, at which time he and the Company entered into a Retirement Agreement that provided certain payments and other benefits through June 30, 3023. Under his Retirement Agreement, Mr. Taylor was entitled to: (i) a salary of $51,000 per month, (ii) an award of $612,000 pursuant to the 2022 Annual Incentive Bonus plan of the Company as and when payments are generally made by the Company pursuant to such plan, and (iii) an equity award (or cash in lieu of equity if there are not sufficient shares available) with a value of $612,000 pursuant to the 2022 long-term incentive plan of the Company as and when awards are generally made by the Company pursuant to such plan. Provided that Mr. Taylor's employment was not terminated by the Company for Cause (as defined in the Retirement Agreement) prior to June 30, 2023, Mr. Taylor was entitled to receive: (i) immediate vesting of all equity awards (and all cash awards in lieu of equity) which had not previously vested; (ii) a cash payment of $1,224,000 to be made on July 17, 2023; (iii) a cash payment on July 17, 2023 of $1,530,000 in lieu of participation in the 2023 Annual Incentive Bonus Plan of the Company, and (iv) a grant of shares of common stock of the Company on July 17, 2023 with a value of $100,000.

After he accepted the Company's request to return as Interim Chief Executive Officer upon the departure of Mr. Chisholm in November 2022, Mr. Taylor served in such role through June 30, 2023, at no additional compensation above what he was entitled to receive under the Retirement Agreement.

On June 30, 2023, the Company and Mr. Taylor entered into a further Interim CEO Agreement that set out Mr. Taylor's compensation for his services beyond June 30, 2023. Mr. Taylor did not participate in the Company's Short Term Incentive Plan ("STIP") or Long Term Incentive Plan ("LTIP") plans for executive officers in 2023. Pursuant to the Interim CEO Agreement, Mr. Taylor was entitled to receive: (i) an RSU grant of 10,101 shares with a value of $100,000 based upon the closing price as of June 30, 2023 of $9.90 per share, which will vest one year from the date of grant, and (ii) continuation of his monthly salary of $51,000 per month.

Chief Financial Officer

Mr. J.D. Faircloth was appointed Interim Chief Financial Officer on February 8, 2023, in connection with the announced departure of Mr. Micah Foster, previously the Company's Vice President and Chief Financial Officer, who resigned on February 28, 2023. On October 9, 2023, the Company appointed Mr. John Bittner to the position of Interim Chief Financial Officer, replacing Mr. Faircloth. The services provided by Mr. Bittner, and the compensation received for such services, are pursuant to an engagement agreement between the Company and Accordion. Mr. Bittner is a Senior Managing Director with Accordion, having over 25 years of strategic, financial and operational advisory experience. As both Mr. Faircloth and Mr. Bittner served in interim capacities, they did not participate in the Company's STIP or LTIP for executive officers in 2023.

President and Chief Operating Officer

Mr. Brian Tucker was appointed as President and Chief Operating Officer on October 9, 2023. Mr. Tucker previously served as a Senior Vice President Operations for Patterson UTI Energy. Immediately before that he held the role of Chief

Operating Officer of Pioneer Energy Services. Pursuant to his Employment Agreement, Mr. Tucker participated on a pro-rata basis, based on number of days worked at the Company in 2023, in the Company's 2023 STIP and LTIP.

Chief Technical Officer

Mr. James Hazlett was our Vice President of Technical Services and Chief Technical Officer for all of 2023, and the only NEO who participated on a full-year basis in all elements of our 2023 executive compensation program.

Executive Compensation Process

The Role of the Compensation Committee. The Compensation Committee oversees the executive compensation program and has overall responsibility for making final decisions about total compensation for all of the NEOs. As part of its annual process, the Committee works closely with senior management (as appropriate), the Chairman of the Board and its independent compensation consultant. This process ensures consistency from year to year and adherence to the responsibilities listed in the Committee's Charter, which is available on our website.

The Role of the CEO. The CEO makes recommendations to the Compensation Committee regarding the compensation of other NEOs. The CEO does not provide recommendations concerning his compensation, nor is he present when his compensation is discussed by the Committee. The Committee, with input from its independent compensation consultant, discusses and approves the elements of the CEO's compensation annually.

The Role of the Independent Compensation Consultant. The Compensation Committee has the authority to engage and retain an independent compensation consultant to provide independent counsel and advice. For 2023, the Committee continued its engagement with Zayla Partners, LLC ("Zayla") as its independent compensation consultant. Zayla provided the following services during 2023: executive compensation benchmarking, support in the design of annual and long-term incentive plans, review and analysis of compensation programs from a risk perspective and support for the Committee's shareholder outreach activities. Additionally, a representative of the independent consultant attends meetings of our Compensation Committee and communicates with our Compensation Committee Chair and members of management as needed; however, our Compensation Committee make all decisions regarding the compensation of our executive officers.

The Compensation Committee reviewed its engagement with Zayla, based on the factors set forth in the corporate governance standards of the New York Stock Exchange and the rules of the Securities and Exchange Commission, and determined that there were no conflicts of interest present.

Objectives of Our Executive Compensation Program

Our Compensation Committee is responsible for designing and approving decision-making related to our executive compensation program and any related agreements or policies which are in the long-term interests of the Company and its shareholders. As part of our long-term approach and in keeping with the interests of our shareholders, the Compensation Committee has identified the following core objectives that help drive decision-making related to our executive compensation program:

Incorporate shareholder input on executive compensation design as appropriate

Utilize market best practices related to the design and governance of executive compensation programs

Utilize market best practices related to the design and governance of executive compensation programs

2023 Say on Pay Vote and Shareholder Outreach

As noted above, one of the objectives for the Compensation Committee is to incorporate, as appropriate, shareholder input on executive compensation design. In 2023, the Company sought an advisory vote from our shareholders regarding 2022 executive compensation decisions. The shareholders approved the advisory vote with 72.6% of the votes cast in favor of our say-on-pay proposal. Notwithstanding the approval, the Compensation Committee continued its compensation governance initiatives and commitment which included restructuring the committee to include Mr. Tringali as Chair and Mr. Jacobs as a member (until his appointment as Chief Executive Officer in February 2024) in order to improve shareholder support on executive compensation matters going forward.

One action the Compensation Committee took to support this commitment was to initiate a shareholder outreach campaign whereby the Company could solicit feedback from shareholders on the Company's executive compensation programs. Between December 2023 and January 2024, the Company contacted shareholders representing approximately 61% of Company stock held by non-insiders. Mr. Tringali, Lead Director and Compensation Committee Chair led this process on behalf of the Company. Shareholders representing 13% of Company stock owned by non-insiders provided feedback, which is summarized below:

What We Heard	How We Responded
Shareholders prefer that the compensation package for the permanent CEO be in line with market.	While not applicable for 2023 (because there was an interim CEO), the Company notes that the compensation package for Mr. Jacobs in his role as Chief Executive Officer is in line with market.
Shareholders prefer to see more performance-based compensation.	In 2023, the Company redesigned its LTIP program to conform with market and compensation best practices. Accordingly, in early 2024, the Company granted long-term incentive awards to Mr. Jacobs and Mr. Tucker that are equally split between time-vesting and performance-based vesting awards, with the performance-based vesting awards being subject to relative TSR performance over the subsequent 3-year period

The Compensation Committee notes that in addition to the above, it had previously committed to the following improvements in the design of executive compensation programs for the Company as disclosed in last year's proxy:

- For long-term incentive awards that are contingent on the Company's performance with respect to relative total shareholder return ("TSR"), a minimum performance of 60th percentile will be required to achieve "target" award level.
- Awards will be capped at target if absolute TSR is negative over the performance evaluation period, regardless of relative performance.
- No discretionary awards outside of the short- and long-term incentive programs for a period of three years, with the exception of new-hire awards that are consistent with industry practice.
- Adjust the short-term incentive program metrics to reduce the weighting on revenue and increase weighting more closely tied to profitability.
- CD&A disclosure will be enhanced to explain the Company's decisions more thoroughly, particularly as they relate to peer groups and goal setting.
- The Committee will work to better align the permanent Chief Executive Officer's compensation with the median of the selected peer group.

The Company values the views and insights of our shareholders, and we believe that constructive and meaningful dialogue with them builds and promotes transparency and accountability for the mutual benefit of all Company stakeholders. The Company will continue to maintain open dialogue with stockholders to help ensure ongoing and continuous shareholder feedback on Company governance matters.

Compensation Governance Best Practices

Our compensation program includes specific elements that link executive compensation with long-term shareholder interests. Where appropriate, the Compensation Committee strives to reflect and implement compensation design and governance best practices, including the following:

COMPENSATION BEST PRACTICES	
What We Do:	**What We Don't Do:**
Independent Committee Members Only independent directors serve on the Compensation Committee, ensuring objective and independent decision-making.	**No Repricing or Exchange** We do not allow for the repricing or exchange of outstanding equity units or options without shareholder approval.
Annual Advisory "Say on Pay" Votes The Company has historically held, and continues to hold, annual Say on Pay votes to ensure shareholders have the opportunity to express their approval, or concern, with executive compensation program designs.	**No Tax Gross-Ups** Executive officers are not eligible to receive tax "gross-ups" in connection with any severance or change-in-control payments or benefits.
Annual Competitive Assessments The Committee conducts annual competitive assessments of executive compensation programs to ensure competitiveness against its peers and broader competitive market for talent.	**No Pledging of Shares** We do not permit pledging, hedging or similar monetization transactions in shares of Company common stock.
Industry Relevant Compensation Peer Group The Company maintains, and updates, as appropriate, a compensation peer group from which the Compensation Committee can consider relevant benchmarks when making compensation decisions.	**No Excessive Perquisites** With the exception of certain expense reimbursements which stand in support of key business strategies and are fully disclosed in the Summary Compensation Table herein, we do not provide any perquisites.
Alignment of Executive Compensation with Shareholders The Company aligns executive compensation outcomes with shareholder interests through the appropriate use of strategy-linked short-term performance goals and stock price-related long-term incentives.	**No Unlimited/Subjective Incentives** Both short-term and long-term incentive programs are capped with maximum payout levels. In addition, the Committee has determined that discretionary awards outside our established incentive plans will be restricted to new hires.

Market Competitive Long-Term Incentive Practices	No Related Party Transactions
The Company's long-term incentive awards for permanent executives incorporate market prevalent best practices like the use of relative and absolute Total Shareholder Return as performance metrics, above median performance to achieve "target" awards, and 3 year vesting timelines.	There are no related party transactions.
Clawback Policy The Company maintains a compensation recoupment policy, or "clawback policy," that applies to all NEOs and can result in the clawback of compensation, including performance- and time-based cash and/or equity awards.	**No Guaranteed Salary Increases or Bonuses** We do not provide for guaranteed salary increases or guaranteed, minimum bonus payouts for executives, unless part of a new hire package for the first year
Share Ownership Guidelines The Company's executive officers and Directors are subject to share ownership guidelines that ensure alignment of interests of both shareholders and Company leadership.	
Engage an Independent Compensation Consultant The Compensation Committee retains an independent external compensation consultant that advises it on executive and board of director compensation matters.	

The Compensation Committee's Approach to Executive Compensation Program in 2023

Even though the interim CEO and interim CFOs for 2023 did not participate in the Company's full executive compensation program in 2023, the Committee did have a full program in place for NEOs.

The Compensation Peer Group and Its Role

Our Compensation Committee examines competitive market compensation data derived from both a public company compensation peer group and relevant compensation survey sources, compiled by Zayla, as one of many factors that assist in making executive compensation decisions. In addition to this market data, the Compensation Committee considers factors such as individual performance, internal equity among executives and retention risk in determining total compensation for our NEOs. The Compensation Committee periodically benchmarks our executive compensation against the compensation paid to executives at a peer group of publicly-traded companies of similar size and industry to the Company (the "Compensation Peer Group") to obtain a general understanding of current compensation practices.

For fiscal 2023, the Compensation Peer Group consisted of the following 13 companies that the Committee's membership at the time determined provided a useful comparison to the Company based on their similarity in size, revenues, market capitalization, EBITDA, scope of operations and service offerings, among other things. Where applicable and appropriate, the Compensation Committee sought to identify a group of companies that resulted in the Company being aligned near the median of the various financial criteria evaluated. The Compensation Committee believed that in doing so, benchmark data extracted from the Compensation Peer Group would better reflect compensation practices of companies that are similar in size and scope to the Company.

Company	Ticker	Revenue [1]	EBITDA [1]	Market Cap [2]	Industry
Ranger Energy Services, Inc.	RNGR	$577	$41	$273	Oil and Gas Equipment and Services
DMC Global Inc.	BOOM	$551	$62	$359	Oil and Gas Equipment and Services
CSI Compressco LP	CCLP	$340	$105	$184	Oil and Gas Equipment and Services

Smart Sand, Inc.	SND	$217	$7	$92	Oil and Gas Equipment and Services
Independence Contract Drilling, Inc.	ICD	$155	$22	$53	Oil and Gas Drilling
NCS Multistage Holdings, Inc.	NCSM	$152	$2	$64	Oil and Gas Equipment and Services
PrimeEnergy Resources Corporation	PNRG	$139	$69	$147	Oil and Gas Exploration and Production
Solaris Oilfield Infrastructure, Inc.	SOI	$123	$66	$363	Oil and Gas Equipment and Services
Geospace Technologies Corporation	GEOS	$89	($4)	$59	Oil and Gas Equipment and Services
Dawson Geophysical Company	DWSN	$34	($15)	$50	Oil and Gas Equipment and Services
Nine Energy Service, Inc.	NINE	$532	$62	$280	Oil and Gas Equipment and Services
KLX Energy Services Holdings, Inc.	KLXE	$476	($4)	$197	Oil and Gas Equipment and Services
Mammoth Energy Services, Inc.	TUSK	$316	$33	$266	Oil and Gas Equipment and Services
Natural Gas Services Group, Inc.	NGS	$79	$23	$129	Oil and Gas Equipment and Services
Percentile Rank		***13%***	***41%***	***40%***	

1. Trailing twelve months as of 09/30/2022 (in $ million).
2. As of 11/21/2022 (in $ million).

Source: Data provided by the independent compensation consultant to the Compensation Committee (Zayla).

Although secondary, the Compensation Committee also considered the operating regions of potential peers, understanding that cost-of-living differences can impact compensation. While the focus was on companies in the oil and gas services business, the evaluation process was not limited to just those companies, rather expanding to a broader energy and industrial universe.

Principal Components of Executive Compensation in 2023

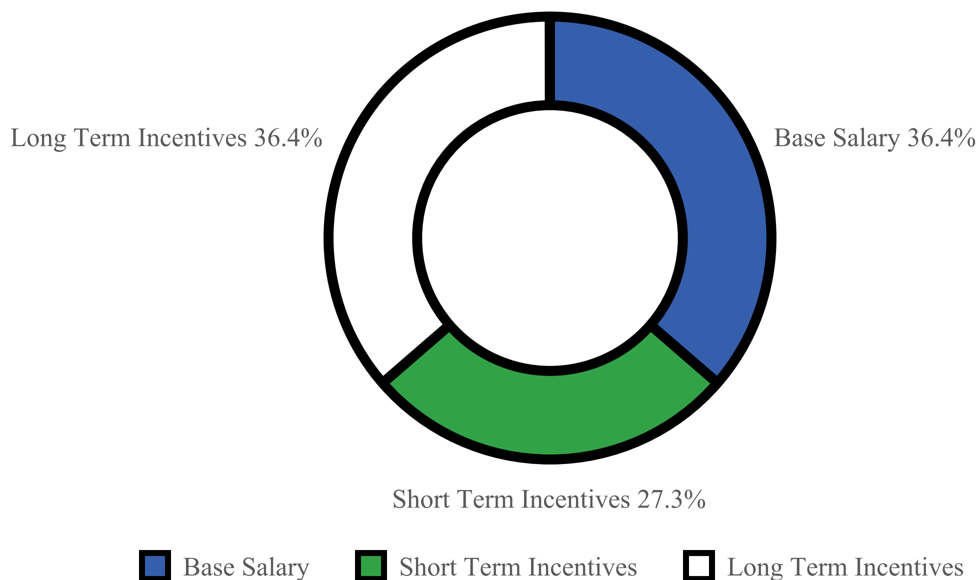
The Compensation Committee utilized the following components to deliver executive compensation in 2023:

Pay Element	Purpose	Description	Link to Performance
Base Salary	To attract and retain qualified key executive talent and to provide a competitive baseline for total compensation that recognizes the executive's skills, experience and responsibilities in the position.	Fixed, non-variable cash compensation. Serves as basis for "target" value of incentive opportunities.	Base salary represents a relatively small portion of total target compensation for permanent NEOs, reflecting our goal to allocate market competitive amounts of compensation to performance-based elements. Individual base salary amounts reflect each executive officer's responsibilities, performance, and work experience and also take into consideration competitive market data.

Annual Cash Incentive	To focus executives on achieving critical short-term financial and operating targets and/or strategic initiatives.	Variable annual cash incentive with payout based on Company performance over the fiscal year.	Target award opportunities are set at a competitive level. Award payout is based on the achievement of the underlying performance criteria established at the beginning of the fiscal year.
Long-Term Incentive	To align a significant portion of executive compensation to the Company's long-term performance and shareholder experience, mainly through the use of relative TSR performance criteria. Multi-year vesting provisions also support our executive talent retention objectives.	For annual awards, grants of performance share units restricted stock units ("RSUs") conditioned on certain relative TSR achievement on a look-back basis. (Note: beginning 2024, this was changed to combination of time vesting RSUs and performance vesting share units (PSUs) based on 3-year forward looking relative TSR.	PSUs provide recipients rewards contingent upon the successful achievement of pre-determined performance objectives, namely TSR on both absolute and relative terms, using common stock as a currency that is strongly aligned with stockholder interests. RSUs support the Company's leadership retention objectives and reinforce an ownership mentality through enhanced equity stakes.

Compensation Mix

As illustrated below, the majority of annual total target compensation for permanent NEOs is performance-based, at-risk and long-term oriented. The graphics illustrate the mix of total target compensation for 2023 for permanent NEOs. Due to the leadership transitions that occurred in 2023, only Mr. Hazlett, our Chief Technical Officer, is shown in the chart below.



As a portion of overall target direct compensation for the permanent NEO for 2023, at-risk compensation represents 63.6% of the total target compensation. For the chart used above, the retention bonus potential awarded to Mr. Hazlett during

2023 in connection with the Retention Agreement dated September 19, 2023, between the Company and Mr. Hazlett was not included in calculating the amounts shown. See "*Compensation Agreements with Management — Retention Agreement with James Hazlett*" on page 46 for further information regarding this agreement.

Annual Base Salaries

The Compensation Committee determines base salaries for the NEOs each year accounting for multiple factors, including breadth, scope and complexity of the role, internal equity, succession planning and retention objectives, market positioning and budget. Decisions are also based in part on market data provided to the Compensation Committee by Zayla. The table below lists the base salaries for applicable NEOs for 2023.

Named Executive Officer	2023 Annual Salary	Increase over 2022 (%)
Stephen C. Taylor	$612,000	0%
Brian Tucker	$400,000	N/A
James R. Hazlett	$260,000	13%

Annual Incentive Bonus Plan ("IBP")

In 2006, the Committee adopted the IBP which 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 IBP (sometimes referred to as the "Short Term Incentive Plan" or "STIP") is based on performance metrics that are established early in the fiscal year. The program is designed to focus the NEOs on achieving critical short-term financial and operating targets and/or strategic initiatives that support annual Company objectives and are linked to the maximization of shareholder value.

2023 Target Bonus Opportunities

The table below details the target bonus opportunities, shown as a percentage of annual base salary, that were applicable to each NEO in fiscal year 2023. Also illustrated are the threshold and stretch opportunities each NEO could earn subject to performance achievements. If the required minimum performance objectives are achieved, each NEO could earn 75% of the target award amount. If the stretch objectives are achieved, each NEO could earn 125% of their target award amount.

Named Executive Officer	Target Award % of Salary	Threshold Payout % of Salary	Stretch Payout % of Salary
Stephen C. Taylor	n/a [1]	n/a [1]	n/a [1]
Brian Tucker	75%	Per Contract[2]	N/A
James R. Hazlett	75%	56%	94%

(1) Mr. Taylor served in an interim capacity as CEO during 2023 and did not participate in the annual bonus plan.
(2) Mr. Tucker was hired October 9, 2023, and pursuant to his Employment Agreement, for his first year received a pro rata portion (based on days worked in 2023) of the target bonus amount.

2023 Performance Goals and Results

As noted above, the Compensation Committee approves performance metrics for the annual cash incentive opportunity early in the fiscal year. Shortly following the conclusion of the plan year, the Compensation Committee determines the degree of which the financial and operational goals have been met and approves cash awards based on the level of achievement.

For 2023, following the Compensation Committee's shareholder outreach and engagement program and a comprehensive review, the Compensation Committee approved certain performance metrics and hurdles. The table below details these metrics, their corresponding weight of value in the IBP, and the final performance achievements as approved by the Compensation Committee:

Metric	Weight	Threshold	Target	Stretch	Actual	Payout Factor
Adjusted EBITDA[1]	35%	$40,546,284	$42,823,832	$44,465,878	$45,779,000	Stretch
Total Revenues	15%	$108,329,450	$114,031,000	$119,732,500	$121,167,000	Stretch

Adjusted Gross Margin[2]	35%	48.0%	48.6%	50.0%	48.5%	Threshold
Safety[3]	15%	1.00	0.65	0.35	0.00	Stretch

(1) EBITDA is a non-GAAP financial measure that we define as net income (loss) before interest, taxes, depreciation and amortization, as well as an increase in inventory allowance and inventory write-offs, retirement of rental equipment, non-recurring severance expenses and non-cash equity compensation expenses.

(2) Adjusted Gross Margin is a non-GAAP financial measure that we define as revenue less costs of goods sold (exclusive of depreciation and amortization expense). The IBP awards for Revenue, EBITDA and Adjusted Gross Margin shall be prorated between levels, resulting in a 95.8% payout factor for Adjusted Gross Margin based upon the fiscal 2023 results.

(3) Safety performance is measured based upon the Company's Total Recordable Incident Rate ("TRIR"), which the Company believes is a commonly-used metric to measure safety performance.

2023 IBP Payouts

Based on the above, the Compensation Committee approved the following payouts to applicable NEOs.

Named Executive Officer	2023 Target % of Salary	2023 Target $ Value	2023 Performance - % of Target	2023 Payout $ Value
Brian Tucker[1]	75%	$68,219	100.0%	$68,219
James R. Hazlett [2]	75%	$195,000	114.8%	$223,844

1. Mr. Tucker was hired on October 9, 2023 and his IBP target and payout amounts for the first year were fixed by his Employment Agreement. The amount paid for 2023 was the target amount prorated for the percentage of time he served with the Company during 2023.

2. Excludes cash retention bonus of $150,000 provided in connection with entry into Retention Agreement on September 19, 2023.

The Compensation Committee will continue to review the metrics used in the IBP on an annual basis with an emphasis on both input from our shareholders received through our outreach and engagement program as well as trends ascertained from a review of relevant competitive market practices. The Committee believes this approach allows us to be responsive to the input of our shareholders as well as competitive with practices among our peers and the compression and oilfield services industry.

For further information regarding the STIP plan, please see "*Short-Term Incentives — Annual Incentive Bonus Plan*" on page 34.

Long-Term Equity Incentive Program

As discussed above, throughout 2023, our CEO and CFO positions were filled on an interim basis and those individuals did not participate in the NEO Long Term Incentive Equity Program.

In connection with his agreement to serve as Interim CEO beyond June 30, 2023, Mr. Taylor was granted a one-time RSU award valued at $100,000.

President and Chief Operating Officer Brian Tucker was hired October 9, 2023, at which time he was granted 6,361 RSUs, valued at $90,962.

Jim Hazlett, our Vice President of Technical Services and Chief Technical Officer, was the only NEO who participated in the LTIP. The terms of Mr. Hazlett's 2023 LTIP were:

- Opportunity to receive RSU awards vesting ratable over the three years following the grant date;
- Minimum relative TSR achievement must be satisfied for any awards to be granted; and

- Target award (150% of base salary for 2023) is earned when relative TSR is at the 60th percentile of the identified peer group.

The table below shows the Company's relative Total Shareholder Return performance as compared to its peer group

Company	Ticker	Total Shareholder Return (1)	Relative Percentile Ranking	Relative TSR Rank	NGS Award Level - % of Target
Geospace Technologies Corporation	GEOS	207%	100%	1	200%
Natural Gas Services Group, Inc.	**NGS**	**40%**	**92%**	**2**	**180%**
CSI Compressco LP	CCLP	27%	85%	3	160%
PrimeEnergy Resources Corporation	PNRG	22%	77%	4	140%
Smart Sand, Inc.	SND	8%	69%	5	120%
DMC Global Inc.	BOOM	-3%	62%	6	100%
Ranger Energy Services, Inc.	RNGR	-6%	54%	7	80%
Dawson Geophysical Company	DWSN	-7%	46%	8	60%
Solaris Oilfield Infrastructure, Inc.	SOI	-16%	38%	9	40%
Independence Contract Drilling, Inc.	ICD	-25%	31%	10	25%
NCS Multistage Holdings, Inc.	NCSM	-29%	23%	11	0%
KLX Energy Services Holdings, Inc.	KLXE	-35%	15%	12	0%
Mammoth Energy Services, Inc.	TUSK	-48%	8%	13	0%
Nine Energy Service, Inc.	NINE	-82%	0%	14	0%

(1) Amounts shown in the TSR column represent the calculated shareholder return for the 2023 calendar year for the applicable peer company.

Based on the Company's share performance from January 1 - December 31, 2023, the Company's relative Total Shareholder Return performance was second out of the 13-member adjusted group, which met the minimum TSR achievement necessary for Mr. Hazlett to qualify for his award. This resulted in an award of restricted stock with a grant date fair value equal to 100% of Mr. Hazlett's target award level.

The table below shows the Long-Term Equity Incentive Award level achieved for 2023:

Named Executive Officer	2023 Target % of Salary	2023 Target $ Value	2023 Award Grant Date Fair Value	Underlying Number of Shares
Mr. Hazlett	150%	$390,000	$389,996	21,984

The Compensation Committee will continue to review the award vehicles, performance metrics and hurdle rates used in the Long-Term Equity Incentive Program on an annual basis with an emphasis on both input from our shareholders received through our outreach and engagement program as well as trends ascertained from reviews of our peer group companies. The Committee believes this approach will allow us to be responsive to the input of our shareholders as well as competitive with practices among our peers and the compression and oilfield services industry.

COMPENSATION TABLES

The table below sets forth the compensation earned by our former CEO, Stephen C. Taylor, and our other named executive officers for services rendered to us for the fiscal years ended December 31, 2023, 2022 and 2021.

Summary Compensation Table

Name and Principal Position	Year	Salary [2]	Bonus [3]	Stock Awards[4]	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation [5]	Total
(a)	(b)	(c)($)	(d)($)	(e)($)	(f)	(g)($)	(h)	(i)($)	(j)($)
Stephen C. Taylor, Chairman, Interim President & CEO (1)	2023	612,000	—	200,000	—	—	—	2,773,243	3,585,243
	2022[1]	313,545	—	313,545	—	313,545	—	9,362	949,997
	2021	612,000	—	722,160	—	397,800	—	17,319	1,749,279
James R. Hazlett, Vice President, Technical Services	2023	260,000	150,000	389,996	—	223,844	—	34,930	1,058,770
	2022	229,485	—	289,816	—	144,908	—	33,168	697,377
	2021	225,100	—	184,025	—	73,158	—	30,726	513,009
Brian Tucker President and Chief Operating Officer	2023	92,055	—	90,962	—	68,219	—	2,417	253,653
	2022	—	—	—	—	—	—	—	—
	2021	—	—	—	—	—	—	—	—

(1) Mr. Taylor retired from his position as President and CEO on May 17, 2022 and was later appointed Interim President and CEO by the Board on November 11, 2022 upon the resignation of Mr. Chisholm. In 2022, Mr. Taylor received $229,710 in base salary for his services as our President and CEO and $83,836 for his Interim CEO services. In addition, in 2022, Mr. Taylor received $612,000 in cash and $612,000 in equity consideration pursuant to his negotiated Retirement Agreement. In 2023, Mr. Taylor received $612,000 of salary and $200,000 of equity awards for his services as interim CEO and $2,754,000 in additional cash compensation paid pursuant to his Retirement Agreement which was negotiated and entered into in May, 2022. See "*Compensation Agreements with Management*" on page 44 for more information regarding Mr. Taylor's Retirement Agreement.

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

(3) The amounts reflected in column (d) reflect discretionary bonus payments not covered under our Annual Incentive Bonus Plan. The amount shown for Mr. Hazlett in 2023 reflects a retention bonus paid to Mr. Hazlett after the conclusion of a minimum service period.

(4) The amounts in column (e) reflect the grant date fair value of restricted stock/unit awards in accordance with FASB ASC Topic 718 Natural Gas Service Group, Inc. 2019 Equity Incentive Plan.

(5) The amounts shown in column (i) include matching contributions made by Natural Gas Services Group to each named executive officer under our 401(k) plan and the aggregate incremental cost to Natural Gas Services Group of perquisites provided to our named executive officers as shown in the table below. With respect to Mr. Taylor, this column also includes payments under his Retirement Agreement as set forth in the table below.

All Other Compensation Table

The table below sets forth all other compensation reported in column (i) in the Summary Compensation Table earned by Mr. Taylor as our Chief Executive Officer, Interim Chief Executive Officer and employee and the other named executive officers for services rendered to us for the fiscal years ended December 31, 2023, 2022 and 2021. Mr. Chisholm did not earn any other compensation as Interim Chief Executive Officer.

Name	Year	Automobile Allowance	Personal Use of Company Provided Automobiles	Additional Incremental Portion of Health Insurance Premiums Paid for Officers Only	401(k) Plan	Cash Pursuant to Retirement Agreement	Total
Stephen C. Taylor	2023	$ —	$ 1,800	$ 8,893	$ 8,550	$ 2,754,000	$ 2,773,243
	2022	—	1,800	7,924	8,550	—	18,274
	2021	—	1,800	7,698	7,821	—	17,319
James R. Hazlett	2023	10,200	—	16,180	8,550	—	34,930
	2022	10,200	—	14,418	8,550	—	33,168
	2021	10,200	—	13,467	7,059	—	30,726
Brian Tucker	2023	—	—	1,955	462	—	2,417
	2021	—	—	—	—	—	—
	2020	—	—	—	—	—	—

Grants of Plan-Based Awards for 2023

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.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards						
Name	Grant Date	Threshold ($)	Target ($)	Maxi-mum ($)	Threshold (#)	Target	Maxi-mum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Option (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Stephen C. Taylor	—	$ —	$ —	$ —	$ —	$ —	$ —	—	—	$ —	$ —
James R. Hazlett	3/14/2024[(1)]	—	—	—	—	—	—	21,984	—	—	389,996
	4/25/2024[(2)]	146,250	195,000	243,750	—	—	—	—	—	—	—
Brian Tucker	4/25/2024[(2)]	225,000	300,000	375,000	—	—	—	—	—	—	—

(1) The amounts shown on these rows reflects the awards of restricted stock earned in 2023 and issued in March 2024.

(2) The amounts on these rows assume, under the structure of our Annual Incentive Bonus Plan, that each of the metrics are achieved under threshold (75% payout), target (100% payout), and maximum / stretch (125% payout) levels. The actual payouts in April 2024 that were earned in 2023 were as follows: Mr. Hazlett - $223,843.75 and Mr. Tucker $68,219.18. Mr. Tucker's payout was limited by his contract and was prorated based on number of days worked during 2023.

Short-Term Incentives - Annual Incentive Bonus Plan

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

For 2023, 100% of an executive officer's IBP award was based on achievement of Company financial and other objectives relating to:
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- Adjusted gross margin[1];
- Adjusted EBITDA[2];
- Total revenues; and
- Safety objectives

IBP award components consist of adjusted gross margin - 35%; adjusted EBITDA - 35%; total revenues - 15%; and safety objectives - 15%.

Each year, the Committee sets the performance levels for each component of the company 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.

2023 Annual Incentive Bonus Plan

2023 Executive Bonus Criteria	Adjusted Gross Margin %[1]	Adjusted EBITDA[2]	Revenue
Threshold achievement pays 75% of bonus	48 %	$40,546,284	$108,329,450
Target achievement pays 100% of bonus	49 %	$42,823,832	$ 114,031,000
Stretch achievement pays 125% of bonus	50 %	$44,465,878	$ 119,732,500

(1) Adjusted Gross Margin is a non-GAAP financial measure that we define as revenue less costs of goods sold (exclusive of depreciation and amortization expense). The IBP awards for Revenue, EBITDA and Adjusted Gross Margin shall be prorated between levels, resulting in a 95.8% payout factor for Adjusted Gross Margin based upon the fiscal 2023 results.

(2) Adjusted EBITDA is a non-GAAP financial measure that we define as net income (loss) before interest, taxes, depreciation and amortization, as well as an increase in inventory allowance and inventory write-offs, retirement of rental equipment, non-recurring severance expenses and non-cash equity compensation expenses.

The following table sets forth the maximum bonus eligibility set by the Committee for 2023 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 2023 under our Annual Incentive Bonus Plan:

Criteria	Actual 2023 Performance	Target Metric	Stretch Metric	Eligible Bonus Payment Percentage	Bonus Component	Payable Bonus
Adjusted gross margin [1]	48.5 %	49 %	50 %	96 %	35.00 %	33.60 %
Adjusted EBITDA [2]	$ 45,779,000	$ 42,823,832	$ 44,465,878	125 %	35.00 %	43.75 %
Revenue	$ 121,167,000	$114,031,000	$119,732,500	125 %	15.00 %	18.75 %
Safety				125 %	15.00 %	18.75 %
Total					100 %	114.85 %

In 2023, our executives received (i) a threshold financial metric payout on adjusted gross margin, as the Company's $48.5% adjusted gross margin fell below the target metric of 48.6%. (ii) a stretch financial metric payout on Adjusted EBITDA, as the Company's $45.8 million actual EBITDA exceeded its stretch achievement level of $44.5 million; (iii) a stretch financial metric payout on revenues, as the Company's actual $121.2 million in revenue exceeded its stretch achievement level revenue of $119.7 million; (iii) a stretch payout on Safety objectives as management's performance met the Board approved metrics.

Additional information on operational and financial performance can be found in the Company's annual report filed on Form 10-K and quarterly reports filed on Form 10-Q with the U.S. Securities and Exchange Commission.

The following table summarizes the bonuses awarded under the IBP for 2023:

Name	Title	Base Salary	Target Bonus Eligibility	Bonus Base	Bonus Payout %	Bonus Payouts
Stephen C. Taylor	CEO	$ 612,000	— %	$ —	— %	$ —
James R. Hazlett	VP- Technical Services	$ 260,000	75 %	$ 195,000	114.79 %	$ 223,841
Brian Tucker[1]	President and COO	$ 400,000	75 %	$ 300,000	100 %	$ 68,219

(1) Brian Tucker's 2023 IBP award was fixed by contract and set at the target amount, prorated for days worked during 2023.

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, 2023, stock options to purchase a total of 129,751 shares of our common stock were outstanding under the 1998 Stock Option Plan, as amended and restated, and a total of 415,085 shares of common stock were available at December 31, 2023 for future grants of stock options under the plan. Since the beginning of 2024, we have issued no stock options to purchase shares of our common stock with an additional 30,334 stock options that were either forfeited or expired, leaving 445,419 shares available under the 1998 Stock Option Plan as of March 31, 2024.

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: Anna Delgado, 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 1,150,000 shares of common stock to be awarded under the 2019 Plan. Up to 355,531 of these shares may be issued under the 2019 Plan, in the aggregate, through the exercise of incentive stock options. No non-employee Director may be granted awards, during any fiscal year, with respect to shares of common stock that, together with any cash fees paid to the Director during the fiscal year, have a total value that exceeds $250,000 (calculating the value of any awards based on the grant date fair value for financial reporting purposes).

As of March 31, 2024, we have issued 812,159 shares under the 2019 Plan. Of these shares, 669,777 have vested and are no longer subject to any restrictions or possible forfeiture and 17,690 shares were forfeited and returned to the pool. Vested shares include shares that were withheld for taxes and, under the terms of the 2019 Plan, cannot be re-issued. 139,049 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, 355,531 shares are available to be issued under the 2019 Plan as of March 31, 2024.

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 is 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 $23.73. 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 regard 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 regard 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 outstanding as of December 31, 2023 and held by our named executive officers.

Outstanding Equity Awards at 2023 Fiscal Year-End

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)	Market Value of Shares of Stock that Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or Other Rights that Have Not Vested ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Stephen C. Taylor	—	—	—	—	—	10,101	$ 162,424	—	—
	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—
James R. Hazlett	—	—	—	—	—	44,842	721,059	—	—
	—	—	—	—	—	27,840	447,667	—	—
	—	—	—	—	—	10,335	166,187	—	—
Brian Tucker	—	—	—	—	—	6,361	102,285	—	—

Option Exercises and Stock Vested in 2023

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 2023 and the value realized on exercise of the stock options and (ii) stock awards.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting[1]	Value Realized on Vesting[1]
(a)	(b)	(c)	(d)	(e)
Stephen C. Taylor	—	$—	233,916	$ 2,343,377
James R. Hazlett	—	—	15,167	151,389
Brian Tucker	—	—	—	—

Nonqualified Deferred Compensation

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

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

are settled in Company stock.

Deferred Compensation Table

Name	Beginning Aggregate Balance	Executive Contributions in Last FY ($) (1)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)
Stephen C. Taylor	$ 3,747,156	$ 399,521	$ —	$ 958,956	$ —	$ 5,105,633
James R. Hazlett	435,279	39,841	—	133,738	—	608,858

(1) All contributions were from salary, bonus and stock deferrals in 2023. The Company has made no contributions to the Deferred Compensation Plan.

Pay Versus Performance

In the table below, we show certain required information about Pay Versus Performance for our Principal Executive Officer ("PEO") Stephen C. Taylor and our two other named executive officers Micah C. Foster and James R. Hazlett ("NEO") for 2022 and 2021 and James R. Hazlett and Brian Tucker for 2023, reflecting executive compensation actually paid compared to Total Shareholder Return ("TRS") for the years ended December 31, 2023, 2022 and 2021:

	For PEO and Interim PEO Taylor		For Interim PEO Chisholm					
Year	Summary Compensation Table Total for Taylor	Compensation Actually Paid to Taylor	Summary Compensation Table Total for Chisholm	Compensation Actually Paid to Chisholm	Average Summary Compensation Table Total for non-PEO NEOs	Average Compensation Actually Paid to non-PEO NEOs	Value of initial fixed $100 investment based on TSR	Net Income (Loss) (in thousands)
2023	$3,585,243	$3,387,854	$ —	$ —	$656,212	$768,862	$ 169.62	$ 4,747
2022	949,997	1,452,146	429,129	429,129	569,665	621,088	120.89	(569)
2021	1,749,279	2,259,464	—	—	478,742	377,955	110.44	(9,183)

The following supplementary tables presents the adjustments necessary to determine the compensation actually paid to the named PEO and Interim PEO's and Non-PEO NEO's:

Adjustments to Determine Compensation "Actually Paid" for PEO/Interim PEO Taylor	2023	2022
Total amount per Summary Compensation Table	$ 3,585,243	$ 949,997
Adjustments to determine compensation actually paid:	—	—
Deduct amount reported under Stock Awards column for Taylor	(200,000)	(313,545)
Deduct amount reported under Option Awards column for Taylor	—	—
Increase for Fair Value of Awards Granted during the year that remain unvested at year end	262,424	697,215
Increase/decrease for change in Fair Value from Prior Year-end to Current Year-end of Awards Granted Prior to year that were Outstanding and Unvested as of Year-end		103,144
Increase for Fair Value of Awards Granted during year that Vest during year	—	—
Increase (deduction) for Change in Fair Value from Prior Year-end to Vesting Date of Awards Granted Prior to year that Vested during year	(259,813)	15,335
Increase based on Dividends or Other Earnings Paid during year prior to Vesting Date of Award.	—	—
Deduct Fair Value of Awards Granted Prior to year that were Forfeited during year	—	—
Total adjustments	(197,389)	502,149
Compensation Actual Paid to PEO/Interim PEO Taylor (1)	$ 3,387,854	$ 1,452,146

(1) As discussed elsewhere herein, $2,754,000 of compensation paid to PEO Taylor relates to amounts paid in 2023 pursuant to his Retirement Agreement negotiated during 2022.

Adjustments to Determine Compensation "Actually Paid" for Interim PEO Chisholm	2023	2022
Total amount per Summary Compensation Table	$ —	$ 429,129
Adjustments to determine compensation actually paid:		
Deduct amount reported under Stock Awards column for Chisholm	—	—
Deduct amount reported under Option Awards column for Chisholm	—	(59,635)
Increase for Fair Value of Awards Granted during the year that remain unvested at year end	—	—
Increase/decrease for change in Fair Value from Prior Year-end to Current Year-end of Awards Granted Prior to year that were Outstanding and Unvested as of Year-end	—	—
Increase for Fair Value of Awards Granted during year that Vest during year	—	59,635
Increase (deduction) for Change in Fair Value from Prior Year-end to Vesting Date of Awards Granted Prior to year that Vested during year	—	—
Increase based on Dividends or Other Earnings Paid during year prior to Vesting Date of Award.	—	—
Deduct Fair Value of Awards Granted Prior to year that were Forfeited during year	—	—
Total adjustments	—	—
Compensation Actual Paid to Interim PEO Chisholm	$ —	$ 429,129

Adjustments to Determine Average Compensation "Actually Paid" for Non-PEO NEOs	2023	2022
Total average amount per Summary Compensation Table for Non-PEO NEO's	$ 656,212	$ 569,665
Adjustments to determine average compensation actually paid:	—	—
Deduct average amount reported under Stock Awards	(240,479)	(144,908)
Deduct average amount reported under Option Awards	—	—
Increase for Fair Value of Awards Granted during the year that remain unvested at year end	364,342	183,589
Increase/decrease for change in Fair Value from Prior Year-end to Current Year-end of Awards Granted Prior to year that were Outstanding and Unvested as of Year-end	—	9,900
Increase for Fair Value of Awards Granted during year that Vest during year	—	—
Increase (deduction) for Change in Fair Value from Prior Year-end to Vesting Date of Awards Granted Prior to year that Vested during year	(11,213)	2,842
Increase based on Dividends or Other Earnings Paid during year prior to Vesting Date of Award.	—	—
Deduct Fair Value of Awards Granted Prior to year that were Forfeited during year	—	—
Total adjustments	112,650	51,423
Average Compensation Actual Paid to Non-PEO NEOs	$ 768,862	$ 621,088

Shareholder Return ("TSR") for the years ended December 31, 2023 and 2022 is as follows:

TSR - (P1-P0) + D		2023	2022	2021
P1 - Ending NGS stock price - December 31,		$ 16.08	$ 11.46	$ 10.47
P0 = Initial stock price - December 31, 2021		$ 9.48	$ 9.48	$ 9.48
D = Dividends		$ —	$ —	$ —
	TSR =	$ 6.60	$ 1.98	$ 0.99
TSR/P0	TSR %	69.62 %	20.89 %	10.44 %
TSR based on $100 investment		$ 169.62	$ 120.89	$ 110.44

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, 2023, 2022 and 2021:

Name	Year	Fees Earned or Paid ($) [1]	Stock Awards ($)(2)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)(3)	Total ($)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Leslie A. Beyer	2023	$ 17,500	$ —	—	—	—	—	$ 17,500
	2022	70,000	49,996	—	$ 50,000	—	—	169,996
	2021	66,250	50,003	—	50,000	—	—	166,253
David L. Bradshaw	2023	70,000	100,003	—		—	—	170,003
	2022	70,000	49,996	—	50,000	—	—	169,996
	2021	68,750	50,003	—	50,000	—	—	168,753

Nigel J. Jenvey	2023	75,357	100,003	—		—	—	175,360
	2022	79,333	49,996	—	50,000	—	—	179,329
	2021	52,500	50,000	—	50,000	—	—	152,500
John Chisholm[(1)(2)(3)]	2023	—	—	—	—	—	—	—
	2022	26,444	248,803	—	100,000	—	110,000	485,247
	2021	68,750	50,003	—	50,000	—	—	168,753
Justin Jacobs	2023	47,308	100,003	—	—	—	—	147,311
	2022	—	—	—	—	—	—	—
	2021	—	—	—	—	—	—	—
Don Tringali	2023	47,308	100,003	—	—	—	—	147,311
	2022	—	—	—	—	—	—	—
	2021	—	—	—	—	—	—	—
Georganne Hodges	2023	9,684	63,844	—	—	—	—	73,528
	2022	—	—	—	—	—	—	—
	2021	—	—	—	—	—	—	—
William F. Hughes, Jr.	2023	—	—	—	—	—	—	—
	2022	—	—	—	—	—	—	—
	2021	16,250	—	—	—	—	—	16,250

Cash Compensation Paid to Independent Directors

(1) Our non-employee Directors are paid a quarterly cash fee. The cash fee payable to our non-employee Directors was $13,750 per quarter for 2023. In addition, the Committee Chairman were entitled to an additional quarterly cash fee in the amount of $3,750. Mr. Chisholm's fees were pro-rated for time served as a director.

(2) On December 29, 2022, Mr. Chisholm was granted 16,935 shares at $11.00 per share in connection with his Severance Agreement.

(3) As part of Mr. Chisholm's Severance Agreement, he also received a cash payment of $110,000 in 2022.

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 2023, 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.

On April 25, 2022, the Compensation Committee recommended and the Board approved the continuation of its annual equity award policy of $100,000 in value of restricted stock and cash, for 2022. In connection therewith, four independent Directors were granted the following:

- An award of $50,000 in cash (50% of the total) that vests one year from the date of grant; and
- An award of 4,212 shares of restricted stock, which was calculated by dividing $50,000 by a deemed share price of $11.87. These awards of restricted stock vest one year from the date of grant and are subject to acceleration in certain events.

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

Other

All Directors are reimbursed for their expenses incurred in connection with attending meetings. We provide liability insurance for our Directors and officers. The cost of this coverage for 2023 was $288,466. We do not offer non-employee Directors travel accident insurance, life insurance, or a pension or retirement plan.

Compensation Agreements with Management

Retirement of Stephen C. Taylor as President and Chief Executive Officer

On May 17, 2022, the Company and Stephen C. Taylor, our then President and Chief Executive Officer, terminated his Employment Agreement dated April 24, 2015, in connection with his retirement. The Company agreed that unless Mr. Taylor's employment with the Company was previously terminated for Cause it would:

i. Pay Mr. Taylor a salary of $51,000 per month;
ii. Award Mr. Taylor $612,000 pursuant to the 2022 Annual Incentive Bonus Plan of the Company as and when payments are generally made by the Company pursuant to such plan, and
iii. Grant to Mr. Taylor an equity award (or cash in lieu of equity if there are not sufficient shares available) with a value of $612,000 pursuant to the 2022 Long-Term Incentive Plan of the Company as and when awards are generally made by the Company pursuant to such plan.

Provided that the employment of Mr. Taylor by the Company pursuant to the Retirement Agreement was not terminated by the Company for Cause prior to June 30, 2023:

i. All equity awards (and all cash awards in lieu of equity) to Mr. Taylor by the Company which have not previously vested would immediately vest,
ii. Mr. Taylor would be entitled to receive from the Company on July 17, 2023 a cash payment of $1,224,000,
iii. Mr. Taylor would be entitled to receive from the Company on July 17, 2023 a cash payment in the amount of $1,530,000 in lieu of participation in the 2023 Annual Incentive Bonus Plan of the Company, and
iv. A grant of shares of common stock of the Company on July 17, 2023 with a value of $100,000.

All payments and other required awards noted above were paid to Mr. Taylor. Notwithstanding the retirement agreement with Mr. Taylor, during our search for a permanent CEO, Mr. Taylor agreed to continue his employment as our Interim CEO. In connection with his interim CEO service after June 30, 2023, we continued paying Mr. Taylor his monthly salary of $51,000. We also granted Mr. Taylor a restricted stock unit award for 10,101 shares of common stock with a value of $100,000 at the time of grant On February 12, 2024, we hired Justin C. Jacobs as our permanent CEO an in connection therewith, Mr. Taylor retired, although he remains Chairman of our Board.

Employment of Brian Tucker as President and Chief Operating Officer

On October 9, 2023, the Company entered into an entered into an employment agreement (the "**Employment Agreement**") with Brian L. Tucker, pursuant to which Mr. Tucker was appointed President and Chief Operating Officer of the Company.

The following is a summary of the material features of the Employment Agreement and is qualified in its entirety by reference to the full text of the agreement.

Base Salary. Mr. Tucker's initial annual base salary is $400,000 ("**Base Salary**") and will be reviewed at least annually by the Company's Board of Directors ("**Board**"). The Company does not have any obligation to increase or decrease the Base Salary.

Bonus. In addition, Mr. Tucker will have the opportunity to earn incentive compensation in the form of an annual cash bonus based on performance thresholds and metrics established by the Board or Compensation Committee of the Board. For 2023, the target amount was 75% of his Base Salary, pro-rated for the number of days employed in 2023.

Equity Compensation. Upon his employment, Mr. Tucker was granted a restricted stock unit of 6,361 shares of the Company's common stock based on $14.30 per share which was the fair market value of one share of the Company's stock on the date of grant. The RSU vests in three equal annual installments beginning on the first anniversary of the effective date of the Employment Agreement, subject to Mr. Tucker's continuous employment with the Company and other customary provisions to be set forth in an award agreement under the Company's 2019 Equity Incentive Plan.

Benefits. The Company will provide Mr. Tucker retirement and other employee benefits as are customarily provided to similarly situated executives of the Company, including paid vacation, coverage under the Company's medical plan and reimbursement for all reasonable business expenses in accordance with the Company's expense reimbursement policy.

Term and Termination. The initial term of the Employment Agreement is for one year (October 9, 2023 to October 8, 2024). The initial term automatically extends for additional one-year periods unless either party gives notice not to renew at least 60 days prior to the end of the initial or any renewal term. The Company or Mr. Tucker may terminate the Agreement at any time upon written notice.

Effect of Termination; Severance.

If Mr. Tucker's employment is terminated by the Company (A) without cause (as defined in the Employment Agreement) or (B) failure by the Company to renew the agreement upon the expiration of any given one-year term, or if the Mr. Tucker terminates his employment without good reason (as defined in the Employment Agreement), the Employment Agreement provides that he will receive (i) payment in a lump sum of accrued but unpaid salary and vacation time, (ii) any earned but unpaid bonus, (iii) unreimbursed business expenses and (iv) any such other benefits (including equity compensation) to which he may be entitled to under any employee benefit plan as of the date of termination (collectively, the "**Accrued Amounts**"). In addition, he will receive a severance payment of one (1) times his Base Salary payable over 12 month and the Company will pay COBRA continuation coverage for up to twelve (12) months following his termination.

In the event of a termination of employment (i) by the Company for cause, (ii) by Mr. Tucker without good reason, or (iii) in the case of death or disability, Mr. Tucker will be entitled to the Accrued Amounts but will not be entitled to any severance.

Clawbacks. Mr. Tucker's incentive compensation will be subject to clawback regulations in effect under applicable law or applicable stock exchange listing standards.

Non-Compete and Other Agreements.

In connection with the Employment Agreement, Mr. Tucker also executed a Non-Compete Agreement and Proprietary Rights Agreement that contain customary non-compete, confidentiality and non-solicitation provisions, along with proprietary rights ownership of work product in favor of the Company.

Appointment of John Bittner as Interim Chief Financial Officer

On October 9, 2023, the Company appointed John Bittner to the position of Interim Chief Financial Officer. Mr. Bittner's services as Interim Chief Financial Officer are provided by Accordion, a financial consulting firm engage by the Company which specializes in providing CFO professionals on a contract basis. Under our engagement agreement with Accordion, we pay Accordion $35,000 per month for Mr. Bittner's services as our Interim CFO. Because Mr. Bittner, through Accordion, provides his services on an independent contractor basis, he is not eligible to participate in the Company's incentive equity, bonus or employee benefit plans. Mr. Bittner is compensated by Accordion and the Company has no knowledge of Mr. Bittner's compensation package paid by Accordion.

Retention Agreement with James Hazlett, Chief Technical Officer

On September 19, 2023, the Company entered into a Retention Agreement with James Hazlett, our longstanding Chief Technical Officer. Under the agreement, we set Mr. Hazlett's annual base salary at $260,000. In addition, we (i) set his target participation in our performance-based, short-term annual bonus plan at 75% of this base salary, (ii) set his eligibility in our long-term equity award for 2023 with a maximum award based on $390,000 (150% of his base salary) which was satisfied in March 2024 with an award of 21,984 Restricted Stock Units and (iii) paid Mr. Hazlett a retention bonus of $150,000. The agreement also included customary confidentiality provisions, along with proprietary rights ownership of work product in favor of the Company.

Appointment of Stephen C. Taylor as Interim President and Chief Executive Officer

In connection with John W. Chisholm's resignation as the Company's Interim President and Chief Executive Officer, the Board of Directors appointed Stephen C. Taylor as our Interim Chief Executive Officer and President as of November 11, 2022. In addition, the Board, through its Nominating Committee, is in the process of searching for a qualified, permanent Chief Executive Officer. Mr. Taylor continues to serve as the Company's Chairman of the Board. In connection with his service as Interim CEO and President, Mr. Taylor is not receiving additional compensation other than the contractual payments and obligations set forth in the Retirement Agreement dated May 17, 2022, between the Company and Mr. Taylor which will be fully paid by June 30, 2023.

Appointment of James D. Faircloth as Interim Chief Financial Officer

In conjunction with Micah Foster's announced resignation effective February 28, 2023 as the Company's Chief Financial Officer, on February 13, 2023, the Company entered into an employment agreement with Mr. James D. Faircloth to serve as Interim Chief Financial Officer. In accordance with the employment agreement, the Company agreed to pay Mr. Faircloth $100 per hour for his services. In addition, Mr. Faircloth was eligible to receive benefits available to all employees. Mr. Faircloth retired on October 9, 2023.

As of April 29, 2024, we do not have any other 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.

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 (the "Exchange Act"), pursuant to which a person or group of persons is deemed to have "beneficial ownership" of any shares of Common Stock that such person has the right to acquire within 60 days.

The following table indicates the beneficial ownership of our Common Stock as of April 25, 2024 by: (1) each of our Directors and nominees for election; (2) our Chief Executive Officer, principal accounting officer and our other named executive officers (as defined in Item 402(a) (3) of Regulation S-K) (together as a group, the "*Named Executive Officers* "); and (3) all of our current Directors, nominees and executive officers as a group, based on our records and data supplied by each of the current Directors, nominees and executive officers.

Schedule of Beneficial Ownership

Name of Beneficial Owner and Position	Amount and Nature of Beneficial Ownership[1]	Percent of Class
Directors & Nominees Who Are Not Named Executive Officers		
Stephen C. Taylor - Current Director[2]	683,833	5.50 %
David L. Bradshaw - Current Director	45,726	*
Nigel J. Jenvey - Current Director	18,973	*
Donald J. Tringali - Director Nominee	9,470	*
Georganne Hodges	4,623	*
Named Executive Officers		
Justin C. Jacobs - Chief Executive Officer and Director[3]	9,470	*
James R. Hazlett - Vice President - Technical Services[4]	129,412	1.04 %
Brian L. Tucker - President and Chief Operating Officer	—	—
John Bittner - Interim Chief Financial Officer	—	—
All Directors (and nominees) and executive officers as a group (9 persons)	901,507	7.25 %

* Less than one percent.

(1) The number of shares listed includes all shares of common stock owned or indirectly owned by, which vest within 60 days of April 22, 2024, under outstanding restricted stock units. Beneficial ownership is calculated in accordance with the rules of the Securities and Exchange Commission. Unless otherwise indicated, all shares of common stock are held directly with sole voting and investment powers. As of April 22, 2024, none of the shares of common stock owned by our officers and Directors had been pledged as collateral to secure repayment of loans.

(2) Includes 133,701 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.

(3) The shares reported represent restricted stock units that vest on May 9, 2024, if Mr. Jacobs continues serving as a Director on our Board through that date. The restricted stock units were granted by the Company to Mr. Jacobs in May 2023 as compensation for serving as a member of the Company's Board. Mr. Jacobs was appointed to our Board by Mill Road Capital III, L.P. (the “Fund”) pursuant to a Cooperation Agreement with the Fund. Pursuant to a pre-existing contractual obligation, Mill Road Capital Management, LLC, an affiliate of the Fund, has the right to receive the economic benefit of the shares when and if issued upon vesting and, accordingly, Mr. Jacobs has no pecuniary interest in the shares underlying the restricted stock award. In addition, to the Company’s knowledge and as represented by M, Mill Road Capital III GP LLC, which is the sole general partner of the Fund, will have sole authority to vote (or direct the vote of), and to dispose (or direct the disposal) of, these shares on behalf of the Fund when and if issued upon vesting. On February 12, 2024, Mr. Jacobs was employed as our Chief Executive Officer and in connection therewith, he resigned his employment and all other positions with the Mill Road Capital entities. Thus, Mr. Jacobs disclaims beneficial ownership of such underlying shares.

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

The following table sets forth information as of April 25, 2024 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 12,437,074 outstanding shares of our Common Stock as of April 22, 2024 other than those set forth below:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Hoak Public Equities, L.P. [(1)] 3963 Maple Avenue, Suite 450 Dallas, Texas 75219	1,150,000	9.25%
Dimension Fund Advisors LP[(2)] Palisades West, Building One, 6300 Bee Cave Road Austin, Texas 78746	925,630	7.44%
Mill Road Capital III, LP[(3)] 382 Greenwich Avenue, Suite One Greenwich, CT 06830	912,408	7.34%
Aegis Financial Corporation[(4)] 6862 Elm Street, Suite 830 McLean, Virginia 22101	854,695	6.87%
Franklin Mutual Advisors, LLC [(5)] 101 John F. Kennedy Parkway Short Hills, NJ 07078-2789	768,834	6.18%

(1) As reported in Amendment No. 1 to Schedule 13G filed with the Securities and Exchange Commission on January 11, 2023. According to the filing, in addition to Hoak Public Equities, L.P. ("HPE"), Hoak Fund Management, L.P., a Texas limited partnership and HPE's general partner ("Hoak Management"), Hoak & Co., a Texas corporation and the general partner of Hoak Management, James M. Hoak, an individual and Hoak & Co.'s controlling shareholder and Chairman, and J. Hale Hoak, an individual and the President of Hoak & Co. are together, the reporting persons. In addition, each of Hoak Management, Hoak & Co, James M. Hoak, and J. Hale Hoak, may be deemed, pursuant to Rule 13d-3 of the Securities Exchange Act of 1934, as amended (the "Act"), to be the beneficial owners of all shares of Common Stock held by HPE.

(2) As reported in Amendment No. 12 to Schedule 13G filed with the Securities and Exchange Commission on February 9, 2024. 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 100% of the shares reported in the table above.

(3) As reported in Amendment No. 3 to Schedule 13D filed with the Securities and Exchange Commission on May 3, 2023. According to the filing, Mill Road Capital III, LP (the "Fund") holds shared voting and investment power over the shares, along with Mill Road Capital III GP LLC, the Fund (the "GP"), and Thomas E. Lynch.

(4) As reported in Schedule 13G filed with the Securities and Exchange Commission on February 9, 2024. According to the filing, Aegis Financial Corporation, a registered investment adviser, along with Scott L. Barbee, holds shared voting and investment power over the shares. Mr. Barbee is listed as a shared beneficial owner by virtue of his control of Aegis Financial Corporation

(5) As reported in Schedule 13G filed with the Securities and Exchange Commission on February 9, 2024. According to the filing, Aegis Financial Corporation, a registered investment adviser, along with Scott L. Barbee, holds shared voting and investment power over the shares. Mr. Barbee is listed as a shared beneficial owner by virtue of his control of Aegis Financial Corporation.

Delinquent Section 16(a) Reports

SEC regulations require that a copy of all 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, 2023, all reports required to be filed pursuant to Section 16(a) were filed on a timely basis.

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 2023, our shareholders recommended that the advisory vote on the Say-on-Pay of our named executives in our proxy materials be submitted annually pursuant to the recommendation of our Board of Directors that the advisory vote be submitted annually. Thus, we include the Say-on-Pay advisory vote in our proxy materials on an annual basis until the next shareholder vote on the frequency of Say-on-Pay or our Board of Directors otherwise determines that a different frequency of Say-on-Pay vote is in the best interests of the shareholders.

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

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

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

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

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

REPORT OF THE AUDIT COMMITTEE

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

The Audit Committee met eight times in 2023. In these meetings, as discussed in more detail below, it had extensive reports and discussions with the independent auditors, internal accounting professionals, and members of management.

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

The Audit Committee also discussed with HL&B its independence from the Company and management, including the communications HL&B is required to provide under applicable PCAOB rules. The Committee considered any non-audit services provided or proposed by HL&B to the Company, and concluded that the auditors' independence has been maintained. In the year ended December 31, 2023 and up until the filing of this Proxy Statement, HL&B provided federal and state income tax preparation services other than these tax services HL&B has not provided any material non-audit services to the Company.

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

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

Based on the reviews and discussions referred to above, in reliance on management and the opinion HL&B included in its report on the financial statements, and subject to the limitations of its role described below, the Audit Committee recommended to the Board, and the Board approved, the inclusion of the audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, for filing with the U.S. Securities and Exchange Commission.

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

The Committee, along with the other members of the Board, management, and the Company's internal accounting professionals annually evaluates HL&B's qualifications, performance, and independence, including the performance of the lead audit partner, in deciding whether or not to retain HL&B. That evaluation includes consideration of: (1) HL&B's quality control; (2) all relationships between HL&B and the Company covered by the PCAOB; (3) HL&B's expertise and experience in the oil and gas industry with specific attention to the oilfield services and compression sectors; and (4) the quality of HL&B's audit plans.

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

Audit Committee believes that the continued retention of HL&B as the Company's independent registered public accounting firm is in the best interest of the Company and its stockholders.

Respectfully submitted by the Audit Committee,

David L. Bradshaw, Chairman
Georganne Hodges
Nigel J. Jenvey

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

We are asking the shareholders to ratify the Audit Committee's appointment of HL&B as our independent registered public accounting firm for the fiscal year ending December 31, 2024. HL&B 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.

HL&B representatives are expected to attend the 2024 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 HL&B as our independent registered public accounting firm for the fiscal year ending December 31, 2024.

Principal Accountant Fees

Our principal accountant for the fiscal years ended December 31, 2023 and 2022 was HL&B.

Audit Fees

The aggregate fees billed for professional services rendered by HL&B for the audit of our consolidated financial statements for the year ended December 31, 2023 and 2022 and the review of the financial statements on Forms 10-Q for the quarters in such years was approximately $474,034 and $369,591, respectively.

Audit Related Fees

During the years ended December 31, 2023 and 2022, there were no audit related fees.

Tax Fees

HL&B provided certain federal and state income tax return preparation services for the year ended December 31, 2023 and 2022. The aggregate fees billed for professional services rendered by HL&B for such tax services were $28,728 and $52,380, respectively.

All Other Fees

No other fees were billed by HL&B our fiscal years ended December 31, 2023 and 2022, 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, 2023, our Audit Committee had not established pre-approval policies and procedures for the engagement of our principal accountant to render audit or non-audit services. However, in accordance with Section 10A(i) of the Exchange Act, our Audit Committee, as a whole, approves the engagement of our principal accountant prior to the accountant rendering audit or non-audit services.

Certain rules of the Securities and Exchange Commission provide that an auditor is not independent of an audit client if the services it provides to the client are not appropriately approved, subject, however, to a de minimis exception contained in the rules. The Audit Committee pre-approved all services provided by Ham, Langston & Brezina LLP in 2023 and the de minimis exception was not used.

SHAREHOLDER PROPOSALS

Under SEC Rule 14a-8, if a shareholder wants us to include a proposal in our Proxy Statement and form of proxy for presentation at our 2025 Annual Meeting of Shareholders, the proposal must be received by us at our principal executive offices at 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705 by January 2, 2025 unless the date of our 2025 Annual Meeting of Shareholders is more than 30 days from the anniversary date of our 2024 Annual Meeting of Shareholders, in which case the deadline is a reasonable time before we print and mail our proxy materials for the 2025 Annual Meeting of Shareholders. The proposal should be sent to the attention of the Corporate Secretary of Natural Gas Services Group, Inc. In order to curtail controversy as to the date on which a proposal was received by us, it is suggested that proponents submit their proposals by certified mail-return receipt requested. Such proposals must also meet the other requirements established by the SEC for stockholder proposals.

In addition, pursuant to our Bylaws, a stockholder who intends to nominate a candidate for election to the Board or to propose other business for consideration at the 2025 Annual Meeting of Shareholders must deliver to the Company notice and certain information concerning themselves and their shareholder proposal or director nomination not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding Annual Meeting (the “Annual Meeting anniversary date”); provided, however, that, if the Annual Meeting is scheduled to be held on a date more than 30 days before or more than 60 days after the Annual Meeting anniversary date, notice must be delivered to us not later than the close of business on the later of the 120th day prior to the scheduled date of such Annual Meeting and not later than the latest of (i) the 90th day prior to such Annual Meeting, or (ii) the 10th day after public disclosure of the date of such Annual Meeting.

Accordingly, any notice given by or on behalf of a shareholder pursuant to these provisions of our Bylaws (and not pursuant to Rule 14a-8 of the Exchange Act) must be received no earlier than February 13, 2025, and no later than March 15, 2025. Such notice should be addressed to: Natural Gas Services Group, Inc., Corporate Secretary, at 404 Veterans Airpark Lane, Suite 300, Midland, Texas 79705.

In addition to satisfying the requirements under our Bylaws set forth above, shareholders who intend to solicit proxies in support of director nominees other than our nominees must provide notice that sets forth the information required by Rule 14a-19 under the Exchange Act (including a statement that such shareholder intends to solicit the holders of shares representing at least 67% of the voting power of the Company’s shares entitled to vote on the election of directors in support of director nominees other than our nominees) to comply with the universal proxy rules, which notice must be postmarked or transmitted electronically to us at our principal executive offices no later than 60 calendar days prior to the anniversary date of the 2025 Annual Meeting (for the 2025 Annual Meeting, no later than April 14, 2025). However, if the date of the 2025 Annual Meeting is changed by more than 30 calendar days from such anniversary date, then notice must be provided by the later of 60 calendar days prior to the date of the 2025 Annual Meeting and the 10th calendar day following the day on which public announcement of the date of the 2025 Annual Meeting is first made.

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

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 at 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.

Certifications. We listed our common stock on the New York Stock Exchange ("NYSE") in October 2008. On an annual basis, our Chief Executive Officer submits to the NYSE the annual certifications required by Section 303A.12(a) of the NYSE Listed Company Manual. 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, 2023, were submitted to the SEC on April 1, 2024, 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, 2023, without charge upon written request to Investor Relations 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, 2023, may be obtained by any shareholder upon written request to Anna Delgado, Investor Relations.

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 at www.ngsgi.com our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. We also make available through our website other reports filed with or furnished to the SEC under the Securities Exchange Act of 1934, as amended, including our Proxy Statements and reports filed by officers and Directors under Section 16(a) of the Exchange Act, as well as our Code of Business Ethics and the charters to our various Committees of our Board of Directors. We do not intend for information contained in our website to be part of this Proxy Statement.

BY ORDER OF THE BOARD OF DIRECTORS

April 29, 2024	/s/ Justin C. Jacobs
Midland, Texas	Justin C. Jacobs
	Chief Executive Officer and Director

FORM 10-K

2023 ANNUAL REPORT

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

FORM 10-K

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

For the fiscal year ended **December 31, 2023**
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 ☐

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.☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant as of June 30, 2023, was approximately $123.1 million based on the closing price of the common stock on that date on the New York Stock Exchange.

At March 28, 2024, there were 12,437,074 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 15, 2024.

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":

- conditions in the oil and natural gas industry, including the supply and demand for oil and natural gas and wide fluctuations in the prices of oil and natural gas;
- our reliance on a major customer;
- fluctuations in interest rates;
- 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;
- our future capital requirements and availability of financing;
- capacity availability, costs and performance of our outsourced compressor fabrication providers and overall inflationary pressures;
- significant economic disruptions and adverse consequences resulting from current and possible long-term effects of the COVID-19 global pandemic and other potential pandemics and other public health crises;
- general economic conditions; and
- acts of terrorism.

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

Glossary of Industry Terms

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

"flare" – A tall stack equipped with burners used as a safety device at wellheads, refining facilities, gas processing plants, and chemical plants. Flares are used for the combustion and disposal of combustible gases. The gases are piped to a

remote, usually elevated, location and burned in an open flame in the open air using a specially designed burner tip, auxiliary fuel, and steam or air. Combustible gases are flared most often due to emergency relief, overpressure, process upsets, startups, shutdowns and other operational safety reasons. Natural gas that is uneconomical for sale is also flared. Often natural gas is flared as a result of the unavailability of a method for transporting such gas to markets.

"gas lift" – A production technique whereby natural gas is injected into a 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 shales or tight sandstones.

"reciprocating compressors" – A reciprocating compressor is a positive displacement device which compresses gas and/or vapor by using a piston in a cylinder and a back-and-forth, or reciprocating, motion.

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

PART I

ITEM 1. BUSINESS

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

Smaller Reporting Company

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

The Company

We are a provider of natural gas compression equipment and services to the energy industry. We rent, operate and maintain natural gas compressors for oil and natural gas production and plant facilities. We also design, fabricate and manufacture compressor units both for sale and rental to our customers. We are headquartered in Midland, Texas, with a fabrication facility located in Tulsa, Oklahoma, a rebuild shop located in Midland, Texas, and service facilities located in major oil and natural gas producing basins in the U.S.

Our primary business and source of gross profit is the rental of natural gas compressor units for applications associated with oil and natural gas production with a focus on large and medium horsepower applications. Our customers, specifically for large and medium horsepower applications, are exploration and production companies that utilize our compressor units for artificial lift applications, i.e., production enhancement enabled with high-pressure gas compression equipment, on unconventional oil wells on single and multi-well pads. In addition, our customer base includes oil and natural gas exploration and production companies that focus primarily on natural gas production (with typically smaller horsepower applications). The Company's largest rental area is the Permian Basin (approximately 63.6% of rental revenues in 2023), with the majority of our remaining rental revenue generated in other oil and natural gas producing regions and basins 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 services include the Utica and Marcellus Shales in Ohio, and the Antrim Shale in Michigan.

Our revenue increased 42.8% to $121.2 million for the year ended December 31, 2023, from $84.8 million for the year ended December 31, 2022. Our rental revenues increased 42.6% to $106.2 million in 2023 from $74.5 million in 2022 as well as sales revenue increasing 4.1% to $8.9 million in 2023 from $8.6 million in 2022. The increase in rental revenue was primarily due to additional rented compressor units and increased rental rates. For the year ended December 31, 2023, the Company reported net income of $4.7 million as compared to a net loss of $0.6 million for the year ended December 31, 2022. In addition, the Company's adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") increased 57.0% to $45.8 million in 2023 from $29.2 million in 2022. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations" for a reconciliation of adjusted EBITDA to its closest GAAP financial measure, net income (loss).

At December 31, 2023, our current assets were $76.3 million, which included $2.7 million of cash and cash equivalents. Current liabilities were $32.7 million at year end 2023. Our stockholders' equity as of December 31, 2023, was $235.9 million.

Recent Events

We are transitioning from fabricating a majority of our compressor units in-house to contracting with third-party fabricators who assemble the units to our specifications, utilizing parts and components from original equipment manufacturers. We continue to design and engineer our compressors and under this arrangement, we procure and pay for the components of our compressor packages which are delivered to one of our third-party fabricators, who then assemble the components and test the compressor units prior to our receiving them. During the fabrication process, we hold title to the compressors and related components. Notwithstanding this transition, we will continue to provide maintenance services, compressor make-ready work and rebuilds at our Midland, Texas facility but we will no longer perform new unit fabrication at this location. We continue to maintain new unit fabrication capability at our Tulsa, Oklahoma facility.

The Company is making this transition for a number of reasons, including (i) the Company feels that the cost advantage of fabricating new units at the Midland facility has been decreasing in recent years; (ii) the Company's fabrication facilities are not capable of producing large horsepower units as efficiently as certain third-party providers; (iii) third party providers have improved in quality and cost competitiveness; and (iv) use of third-party fabricators relives the Company of issues related to efficiency, inventory and labor scarcity.

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 and Aftermarket Services.

Rental. Our rental compression units provide large, medium and small horsepower applications for conventional and unconventional oil and natural gas production. Our rental contracts generally provide for initial terms of six to 60 months and generally extend on a month-to-month basis afterward. We believe that, by outsourcing their compression needs, our customers are able to increase their revenues by producing higher volumes of oil and natural gas due to higher equipment run time, decrease their operating and maintenance cost of operating compression, lower their capital investment needs 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, 2023, we had 1,876 natural gas compressors in our rental fleet totaling 520,365 horsepower. Of this total, we had 1,247 natural gas compressors totaling 420,432 horsepower rented to 84 customers. The unit utilization rate of our rental fleet as of December 31, 2023, was 66.5%, while our horsepower utilization for the same period was 80.8%. We added 92 units with a total of 98,349 horsepower to our fleet during 2023. 73 of those units were 400 horsepower or larger, representing approximately 96% of the horsepower added.

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 20.2% and 42.0% of our sales revenue during 2023 and 2022, respectively.

- ***Parts sales and compressor rebuilds.*** To provide customer support for our compressor sales business, 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 78.8% and 55.2% of our sales revenue during 2023 and 2022, respectively. As noted elsewhere herein, we have ceased in-house fabrication of new compressor units at our Midland facility in favor of contracting our fabrication needs with third-party fabricators and continued new unit fabrication at our Tulsa, Oklahoma facility.

- ***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.

Aftermarket Services. We service and maintain compressors owned by our customers on an "as needed" and contract basis, as well as providing services related to the installation and start-up of new compressor units. 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;

- ***Optimize existing utilized fleet.*** We believe there are opportunities to modestly improve the profitability of our existing utilized rental fleet through targeted price increases, particularly in geographic areas that have experienced high rates of cost inflation, along with operational efficiencies by using improved data collection and analysis to optimize our costs in labor, parts, and maintenance costs.

- ***Improve asset utilization.*** We believe we can improve the overall cash flow of the business by increasing utilization of the existing fleet as well as creating investable cash from non-cash assets. We have a significant number of unutilized units—we will review these assets to determine where relatively low-cost capital expenditures can improve the marketability and cash flow potential of the units. We also have a significant amount of capital tied up in non-cash assets (including working capital and fixed assets) that we believe can be monetized and invested back in the fleet at or above target levels of return on invested capital.

- ***Expand rental fleet***. We intend to prudently increase the size of our rental fleet mainly through pre-contracted agreements with our customers. We believe our future growth in this part of our strategy will be primarily driven through our placement of larger horsepower, centralized wellhead natural gas compressors for unconventional oil production, with select increases in medium horsepower units to meet customer demand beyond our inventory.

- ***Execute accretive mergers and acquisitions.*** We believe there are opportunities in mergers with or acquisitions of competitive rental compression companies or related businesses providing similar services. While there is no certainty as to the probability of any particular deal, we will continue to evaluate potential acquisitions, joint ventures and other opportunities that could enhance value for our shareholders.

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:

- ***Strong operational performance.*** We deliver very high levels of mechanical availability to our customers. Mechanical availability is defined as the percentage of time that our units are capable of operating as designed and is a measure of reliability. The cost of rental compression is an appreciable operating expense for a producer and the improved productivity delivers material incremental profitability to customers. This creates significant value for our customers we believe our high levels of mechanical availability, particularly for our large horsepower rental compression units, is a competitive differentiator for customers selecting our units.

- ***Innovative rental compression units.*** We have made a series of technical innovations to our rental compression units that have improved operational performance while also reducing the environmental impact, largely related to the volume of fugitive emissions, from our compressor units. Environmental considerations have increased in importance for our customers, particularly with recent environmental regulations and taxation, most notably the Methane Emissions Reduction Program. We believe the superior operating and environmental performance of our natural gas engine and electric-drive units, particularly our large horsepower units, is a significant competitive differentiator.

- ***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.

- ***High level of customer service.*** Our ability 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.

- ***Availability of new units.*** The rental compression industry has undergone significant change over the last five years. Capital constraints, in the form of reduced debt availability, higher interest rates, and shareholder demands for return of capital, have forced capital discipline upon the industry. These factors, along with supply chain challenges, led to a dearth of available rental compression units at a time of solid customer demand. Our strong balance sheet allowed us to strategically gain market share with desirable customers renting large horsepower units on pre-contracted units. We believe our relatively modest leverage remains a strategic advantage for the company to continue to gain market share on attractive terms for shareholder return.

Overview and Outlook

The market for compression equipment and services is highly dependent on the production levels and pricing of oil and natural gas. The level of production for oil 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. We feel that the current oil market production outlook is favorable, with current oil prices creating strong incentives for our customers to maximize their production levels. We believe that the current natural gas market outlook is not as strong, as the current level of natural gas prices makes this a more challenging market. While oil prices have historically been volatile, we expect demand for our existing compressor fleet to remain positive assuming oil prices remain in reasonable bands around current pricing levels. While the current production outlook for natural gas is not as strong, given the continued level of depressed prices, we do feel that opportunities exist for increased utilization of our small and medium horsepower units.

The oil and natural gas industries have historically been cyclical and production levels of oil and natural gas are dependent upon numerous factors. We will continue to evaluate our business and operating strategy and we will continue to remain prudent in both our allocation of capital and our capital structure. Nevertheless, if any of these circumstances change, our business could be adversely affected. Please read Item 1A, Risk Factors, in this report.

Major Customer

Sales and rental income to Occidental Permian, LTD. ("Oxy") for the years ended December 31, 2023 and 2022 amounted to 50% and 42% of our revenue, respectively. No other single customer accounted for more than 10% of our revenues in 2023 or 2022.

Oxy amounted to 64% of our accounts receivable as of December 31, 2023, and 55% of our accounts receivable as of December 31, 2022. No other customers amounted to more than 10% of our accounts receivable as of December 31, 2023 or 2022. 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 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 several 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, compression unit availability, customer service, 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 may not increase proportionately.

Backlog

As of December 31, 2023, we had $0.8 million sales backlog compared to none as of December 31, 2022. 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 three to six months or more of lead time prior to delivery of the order. We do not believe that backlog is a good indicator of the future growth potential of our business.

Employees

As of December 31, 2023, we had 266 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 and our outsourced fabrication providers. 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, water quality and wastewater discharges, oilfield waste and other waste materials and protection of human health.

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. And as noted below, we may be indirectly affected by environmental laws that affect our customers.

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 the demand for our services and our operations. The state and federal environmental laws and regulations that currently apply to our operations could become more stringent in the future.

Climate Change

In response to findings that emissions of carbon dioxide, methane and other Greenhouse Gases (“GHGs”) endanger public health and the environment, federal legislation has been considered from time to time to reduce GHG emissions. Methane, a primary component of natural gas, and carbon dioxide, a byproduct of the burning of natural gas, are examples of GHGs. At the federal level, the government could seek to pursue legislative, regulatory or executive initiatives that may impose significant restrictions on fossil-fuel exploration and production and use such as limitations or bans on hydraulic fracturing of

oil and gas wells, bans or restrictions on new leases for production of minerals on federal properties, and imposing restrictive requirements on new pipeline infrastructure or fossil-fuel export facilities.

The Inflation Reduction Act of 2022 (the "IRA 2022") imposes a methane emissions charge on certain oil and gas facilities, including onshore petroleum and natural gas production facilities, which emit 25,000 metric tons or more of carbon dioxide equivalent gas per year and exceed certain emissions thresholds. We do not operate any facilities that are subject to this emissions charge. In July 2023, the EPA proposed to expand the scope of the Greenhouse Gas Reporting Program for petroleum and natural gas facilities, as required by the Inflation Reduction Act. Among other things, the proposed rule expands the emissions events that are subject to reporting requirements to include "other large release events" and applies reporting requirements to certain new sources and sectors. The rule is currently scheduled to be finalized in 2024 and would take effect on January 1, 2025, for reporting year 2025 (due March 2026) in certain circumstances, with the potential to also impact GHG reporting for reporting year 2024 (due March 2025) in certain circumstances. In January 2024, the EPA proposed a rule implementing the Inflation Reduction Act's methane emissions charge. The proposed rule includes potential methodologies for calculating the amount by which a facility's reported methane emissions are below or exceed the waste emissions thresholds and contemplates approaches for implementing certain exemptions created by the Inflation Reduction Act. The methane emissions charge imposed under the Methane Emissions and Waste Reduction Incentive Program for calendar year 2024 would be $900 per ton emitted over annual methane emissions thresholds, and would increase to $1,200 in 2025, and $1,500 in 2026. The proposed rule for the waste emissions charge has been published in the Federal Register and EPA is seeking public comment by March 26, 2024.

Although it is not currently possible to predict how any proposed or future GHG legislation, regulation, agreements or initiatives will impact our business, any such legislation or regulation of GHG emissions could result in increased compliance or operating costs, additional operating restrictions or reduced demand for our compressor services, and could have a material adverse effect on our business, financial condition and results of operations.

Other energy legislation and initiatives could include a carbon tax, methane fee or cap and trade program. At the state level, many states, including the states in which we or our customers conduct operations, have adopted legal requirements that have imposed new or more stringent permitting, disclosure or well construction requirements on oil and gas activities. For instance, various states and groups of states have adopted or are considering adopting legislation, regulations or other regulatory initiatives that are focused on such areas as GHG cap and trade programs, carbon taxes, reporting and tracking programs, and restriction of emissions. For example, in 2019, Colorado passed a bill which delegates authority to local governments to regulate oil and gas activities and requires the Colorado Oil and Gas Conservation Commission to minimize emissions of methane and other air contaminants. Likewise, the New Mexico Environment Department has adopted regulations to restrict the venting or flaring of methane.

In an executive order issued on January 20, 2021, President Biden established an Interagency Working Group on the Social Cost of Greenhouse Gases, which is called on to, among other things, capture the full costs of GHG emissions, including the "social cost" of carbon, nitrous oxide and methane, which are essentially the monetized damages associated with incremental increases in greenhouse gas emissions. The current administration adopted an interim social cost of carbon of $51 per ton in February 2021, but in recent rulemakings the EPA has referenced a figure as high as $2,400 per ton effective in 2030. This figure is intended to be used to guide federal decisions on the costs and benefits of various policies and approvals; such efforts have been the subject of a series of judicial challenges, which have been largely unsuccessful to date. At this time, we cannot determine whether the administration's efforts on social cost or other interagency climate efforts will lead to any particular actions that give rise to a material adverse effect on our business, financial condition, results of operations and cash flows.

At the international level, there is an agreement, the United Nations-sponsored "Paris Agreement," for nations to limit their GHG emissions through non-binding, individually determined reduction goals every five years after 2020. President Biden pledged the renewed participation of the United States on his first day in office. In November 2021, the United States participated in the United Nations Climate Change Conference in Glasgow, Scotland, United Kingdom that resulted in a pact among approximately 200 countries, including the United States, called the Glasgow Climate Pact. Relatedly, the United States and European Union jointly announced the launch of the "Global Methane Pledge," which aims to cut global methane pollution at least 30% by 2030 relative to 2020 levels, including "all feasible reductions" in the energy sector. In conjunction with these pacts, the United States committed to an economy-wide target of reducing net greenhouse gas emissions by 50-52 percent below 2005 levels by 2030. Also in November 2021, President Biden signed a $1 trillion dollar infrastructure bill into law. The new infrastructure law includes several climate-focused investments, including upgrades to power grids to accommodate increased use of renewable energy and expansion of electric vehicle infrastructure. Although it is not possible at this time to predict what additional domestic legislation may be adopted in light of the Paris Agreement or the Glasgow Climate Pact, or how legislation or new regulations that may be adopted based on the Paris Agreement or the Glasgow Climate Pact to address

GHG emissions would impact our business, any such future laws and regulations imposing reporting obligations on, or limiting emissions of GHGs from, our compressors could require us to incur costs to reduce emissions of GHGs associated with our operations and could decrease demand for oil and natural gas.

Litigation risks are also increasing, as a number of cities and other local governments have sought to bring suits against the largest oil and natural gas exploration and production companies in state or federal court, alleging, among other things, that such companies created public nuisances by producing fuels that contributed to global warming effects, such as rising sea levels, and therefore are responsible for roadway and infrastructure damages, or alleging that the companies have been aware of the adverse effects of climate change for some time but defrauded their investors by failing to adequately disclose those impacts.

There are also increasing financial risks for fossil fuel producers and oil and gas field service providers (such as the Company) as shareholders currently invested in fossil-fuel energy and related service companies concerned about the potential effects of climate change may elect in the future to shift some or all of their investments into non-energy related sectors. Institutional lenders who provide financing to fossil-fuel energy and related companies also have become more attentive to sustainable lending practices and some of them may elect not to provide funding for fossil fuel energy companies. Additionally, the lending practices of institutional lenders have been the subject of intensive lobbying efforts in recent years, oftentimes public in nature, by environmental activists, proponents of the international Paris Agreement, and foreign citizenry concerned about climate change not to provide funding for fossil fuel producers. Limitation of investments in and financings for fossil fuel energy companies could result in the restriction, delay or cancellation of drilling programs or development or production activities of our customers, which in turn could have a material adverse effect on our compressor rental and sale business.

The adoption and implementation of new or more stringent international, federal or state legislation, regulations or other regulatory initiatives that impose more stringent standards for GHG emissions from the oil and natural gas sector or otherwise restrict the areas in which this sector may produce oil and natural gas or generate GHG emissions could result in increased costs of compliance or additional operating restrictions or reduced demand for our compressor products and services, and could have a material adverse effect on our business, financial condition and results of operations.

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 effect 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.

Site Remediation and Waste Management and Disposal

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”), also known as the Superfund law, and analogous state laws impose liability on certain classes of persons, known as “potentially responsible parties,” for the disposal or release of a regulated hazardous substance into the environment. These potentially responsible parties include (1) the current owners and operators of a facility, (2) the past owners and operators of a facility at the time the disposal or release of a hazardous substance occurred, (3) parties that arranged for the offsite disposal or treatment of a hazardous substance, and (4) transporters of hazardous substances to off-site disposal or treatment facilities. Potentially responsible parties under CERCLA may be subject to strict, joint and several liability for the costs of investigating and cleaning up environmental contamination, for damages to natural resources and for the costs of certain health studies. In addition to statutory liability under CERCLA, common law claims for personal injury or property damage can also be brought by neighboring landowners and other third parties related to contaminated sites.

The Resource Conservation and Recovery Act (“RCRA”), and comparable state statutes and their implementing regulations, regulate the generation, transportation, treatment, storage, disposal, and cleanup of hazardous and solid (non-hazardous) wastes. Under a delegation of authority from the EPA, most states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. Federal and state regulatory agencies can seek

to impose administrative, civil, and criminal penalties for alleged non-compliance with RCRA and analogous state requirements. In general, hazardous waste is waste with properties that can potentially endanger human health or the environment.

Under CERCLA, RCRA and analogous state laws, we could be required to remove or remediate environmental impacts on properties we currently own and lease or formerly owned or leased (including hazardous substances or wastes disposed of or released by prior owners or operators), to clean up contaminated off-site disposal facilities where our wastes have come to be located or to implement remedial measures to prevent or mitigate future contamination. Compliance with these laws may constitute a significant cost and effort for us. No specific accounting for environmental compliance has been maintained or projected by us at this time. We are not presently aware of any material environmental demands, claims, or adverse actions, litigation or administrative proceedings in which either we or our acquired properties are involved in or subject to or arising out of any predecessor operations.

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. 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 water 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. 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.

Under CERCLA and analogous state laws, we could be required to remove or remediate environmental impacts on properties we currently own and lease or formerly owned or leased (including hazardous substances or wastes disposed of or released by prior owners or operators), to clean up contaminated off-site disposal facilities where our wastes have come to be located or to implement remedial measures to prevent or mitigate future contamination. Compliance with these laws may constitute a significant cost and effort for us. No specific accounting for environmental compliance has been maintained or projected by us at this time. We are not presently aware of any material environmental demands, claims, or adverse actions, litigation or administrative proceedings in which either we or our acquired properties are involved in or subject to or arising out of any predecessor.

Furthermore, the modification of existing laws or regulations or the adoption of new laws or regulations that result in the curtailment of exploratory or developmental drilling for oil and gas could materially and adversely affect our operations by discouraging our customers from drilling for hydrocarbons, disrupting revenue through permitting or similar delays. Demand for our compression products and services could be diminished in connection with these initiatives. Further, to the extent that the review results in the development of additional restrictions on exploration and drilling, limitations on the availability of leases, or restrictions on the ability to obtain required permits, it could have a material adverse impact on our operations by reducing our customers' compression needs and the demand for our services.

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 required us to meet more stringent air emission standards and install new emission control equipment on all of our engines built after July 1, 2008.

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. These standards expanded the 2012 standards by using certain equipment-specific emissions control practices, requiring additional controls for pneumatic controllers and pumps as well as compressors, and imposing leak detection and repair requirements for natural gas compressor and booster stations. In addition, in December 2023, the EPA proposed a rule to further reduce methane and VOC emissions from new and existing sources in the oil and gas sector. 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 future costs to comply with such requirements with any certainty.

We are also subject to air regulation at the state level. For example, sources of air emissions within Texas are controlled by the Texas Commission on Environmental Quality ("TCEQ"). Air emission sources that emit at greater than de minimis levels must obtain a permit prior to operation through the TCEQ. In addition, TCEQ has implemented revisions to certain air permit programs that significantly increase the air permitting requirements for new and certain existing oil and gas production and gathering sites for a number of counties in the Barnett Shale production area that established new emissions standards for engines, which impact the operation of specific categories of engines by requiring the use of alternative engines, compressor packages or the installation of aftermarket emissions control equipment. Expansion by the TCEQ of this type of program and the adoption of similar regulations in other states may increase our compliance costs.

Water Discharge

Clean Water Act. 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.

Safe *Drinking Water Act*. Some of our customers' natural gas production is developed from unconventional sources that require hydraulic fracturing as part of the completion process. Legislation to amend the Safe Drinking Water Act ("SDWA") to repeal the exemption for hydraulic fracturing 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 from time to time and the federal government continues to consider legislation to amend the SDWA. Some states have also proposed or adopted legislative or regulatory restrictions on hydraulic fracturing, including prohibitions on the practice. We cannot predict the future of such legislation and what additional, if any, provisions would be included. Additional levels of regulation or interpretation are adopted at the federal or state level could lead to increased operating costs and prohibitions or curtailment of current hydraulic practices could reduce demand for our compression services, which could materially adversely affect our results of operations and financial position.

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, process and product improvements.

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 twelve 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.

Available Information

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

ITEM 1A. RISK FACTORS

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

Risks Associated With Our Industry

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 affecting traditional supply routes and other possible terrorist activities in the United States and elsewhere;
- the cost of developing alternative energy sources;
- environmental regulation; and
- tax policies.

The rental contracts of many of our operating compressor units have a short-term duration, and oil and natural gas companies tend to respond quickly to upward or downward changes in prices. Any prolonged reduction in drilling and production activities historically has reduced our compressor sales and materially eroded both rental pricing and utilization rates for our equipment and services and adversely affected our financial results. As a result of any such prolonged reductions, we may suffer losses, be unable to make necessary capital expenditures or 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, their product and service diversity or a lower cost of capital. 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.

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

As a result of the COVID-19 outbreak and other economic conditions in the United States and abroad, our revenue and profitability were adversely affected in the ensuing years. The condition of domestic and global financial markets 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 utilization of our products and services and could result in a decrease in, or cancellation of, orders 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.

Continued elevated levels of inflation could have an adverse impact on our operating results.

The U.S. economy has experienced elevated levels of inflation since early 2022. While such levels of inflation have moderated in recent months, uncertainty remains on expectations of inflation during 2024. Should inflationary pressures return or increase, the result will be an increase in our cost structure, including labor costs, parts costs, lubricants and other items used in our operations. If such cost increases occur, we may be unable to pass along such increases to our customers in the form of higher rental rates for our compressor units. Increases in inflation could also increase the costs of new compressor units, making them less attractive and decreasing the demand from our customers for such assets. Should any of these items occur, they could negatively impact the results of our operations.

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. As a result, the demand for our natural gas compression services can be adversely affected. A reduction in demand has, and could in the future continue to, force us to reduce our pricing substantially. Additionally, our customers' production from oil-weighted reserves constitutes the majority percentage of our business. These are considered unconventional sources and are generally less economically feasible to be developed in low oil price environments. A decline in demand for oil and natural gas generally has an adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

A ban of hydraulic fracturing would likely halt some projects, including unconventional projects, at least temporarily. Expanded regulations are likely to introduce a period of uncertainty as companies determine ways to proceed. Any curtailment could result in a reduction in 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 waste or remediate sites where they have been released. We could be exposed to liability for cleanup costs, natural resource and other damages as a result of our conduct or the conduct of, or conditions caused by, prior owners, lessees or other third parties. Environmental laws and regulations have changed in the past, and they are likely to change in the future. If current existing regulatory requirements or enforcement policies change, we may be required to make significant unanticipated capital and operating expenditures.

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

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

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

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

and encouraging the divestment of fossil fuel equities, as well as pressuring lenders and other financial services companies to limit or curtail activities with fossil fuel companies.

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

Regulatory requirements related to ESG or sustainability reporting have been issued in the European Union that apply to financial market participants. In the United States, such regulations have been issued related to pension investments in California, and for the responsible investment of public funds in Illinois. Additional regulation is pending in other states. We expect regulatory requirements related to ESG matters to continue to expand globally. If we are not able to meet future sustainability reporting requirements of regulators or current and future expectations of investors, customers or other stakeholders, our business and ability to raise capital may be adversely affected.

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

International, national and state governments and agencies continue to evaluate and promulgate legislation and regulations that are focused on restricting greenhouse gas (GHG) emissions. Compliance with climate action regulations applicable to our customers' operations may have significant implications that could adversely affect our business and operating results in the fossil fuel sectors, and boosting demand for technologies contributing to the climate action agenda.

In the United States, the U.S. Environmental Protection Agency (EPA) has taken steps to regulate GHG emissions as air pollutants under the U.S. Clean Air Act of 1970, as amended. The EPA's Greenhouse Gas Reporting Rule requires monitoring and reporting of GHG emissions from, among others, certain mobile and stationary GHG emission sources in the oil and natural gas industry. In addition, the U.S. government has proposed rules in the past setting GHG emissions standards for, or otherwise aimed at reducing GHG emissions from, the oil and natural gas industry. Caps or fees on carbon emissions, including in the U.S., have been and may continue to be established and the cost of such caps or fees could disproportionately affect the fossil fuel sectors. We are unable to predict whether and when the proposed changes in laws or regulations ultimately will occur or what they ultimately will require, and accordingly, we are unable to assess the potential financial or operational impact they may have on our customers and therefore our business.

Risks Associated With Our Company

A significant majority of our compressor unit rental agreements are either month-to-month or short-term in duration. 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. On a unit basis, of the 1,247 compressors rented at December 31, 2023, 773 were rented on a month-to-month basis. On a horsepower basis, of the 420,432 total rented horsepower, we had 141,194 of that total rented on a month-to-month basis, with the remainder on contracts expiring between 2024 and 2028. Given the volatility of the oil and gas market, we cannot be sure that a substantial number of our customers will continue their rental agreements or that, if such agreements were terminated we will be able to re-rent the equipment to new customers or that any re-rentals would be at comparable rental rates. The inability to timely renegotiate or re-rent a substantial portion of our compressor rental fleet could 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.

A significant amount of our revenues and accounts receivable are related to one customer and a loss of this customer or other 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 50% of our revenue for the year ended December 31, 2023, and the same customer accounted for an aggregate of approximately 42% of our revenue for the year ended December 31, 2022. At December 31, 2023, this same customer accounted for an aggregate of 64% of our accounts receivable. Unless we are able to retain our existing customers, or secure new customers if we lose one or more of our significant customers, our revenue and results of operations would be adversely affected. In addition, the default on payments by our significant customer or other important customers would 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 four officers: our (i) Chief Executive Officer, (ii) Chief Financial Officer (iii) Chief Technical Officer and (iv) President and Chief Operating Officer. On February 1, 2024, Justin Jacobs, a member of our board of directors, was named as Chief Executive Officer and assumed these duties beginning on February 12, 2024. We have had two Interim Chief Financial Officers since the resignation of our prior Chief Financial Officer on February 28, 2023. While there is an ongoing search for a permanent Chief Financial Officer, if this position is not adequately or timely replaced, our business operations could be materially adversely affected. In addition, we rely on James Hazlett, our long-time Chief Technical Officer, in connection with the design and engineering of our compressor lines. While we have recently hired Brian Tucker as our Chief Operating Officer, we expect that Mr. Hazlett's services will also continue to be available to us in the foreseeable future. However, the complete loss of either Messrs. Tucker's or Hazlett's services could have an adverse impact on our business. 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, our customers are more likely to experience a deterioration in their financial condition. Many of our customers' equity values and liquidity substantially decline during declines 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, an increase in the interest rates charged for debt financing, 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. 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.

In late 2022 and for 2023, we significantly expanded and borrowed under our bank credit facility in order to finance the growth of our large horsepower compressor fleet, increasing the outstanding balance on our facility from $25 million at December 31, 2022, to $164 million at December 31, 2023. The current commitment on our credit facility is $225 million, subject to borrowing base limitations. At December 31, 2023, our borrowing base under the credit facility was approximately $219.7 million, leaving approximately $55.7 million available for future borrowing.

During 2024, the amount we will spend on capital expenditures related to compression equipment will be determined primarily by the activity of our customers, our financial resources and access to capital. 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. In addition, although a significant portion of the value of a new compressor increases our borrowing base under our credit facility once it has been fully constructed and put into service, we generally have an approximate lag of 9 to 12 months between borrowing money under the credit facility to fund progress payments to build a compressor and the time it becomes eligible for inclusion in our borrowing base. This lag can reduce the amount of future borrowings available for working capital purposes and new compressor unit acquisition until the unit is placed into service.

During the past year, we funded our capital expenditures through cash flows from operations and borrowings from our revolving credit facility. Although we believe that cash on hand, cash flows from our operations and bank borrowing from our revolving credit facility will provide us with sufficient cash to fund our planned capital expenditures for 2024, we cannot provide assurance that these sources will be sufficient considering the factors and limitations noted above.

In addition to expanding our existing business through organic growth opportunities, 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, due to the existing constraints noted above and any issues or limitations in the equity and debt capital markets, such capital, 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 stagnate our growth and have a material adverse effect on our business, financial condition, results of operations or cash flow.

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

In November 2023, we increased the borrowing commitment of our revolving credit facility from $175 million to $225 million (subject to borrowing base limitation and customary covenants) and at December 31, 2023, we had $164 million outstanding on the revolving credit facility and anticipate additional borrowing on the facility through 2024. 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 (which is variable on our revolving credit facility) 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 borrow under our credit line and are unable to service our debt, we will likely be forced to take remedial steps that are contrary to our business plan.

If we were to materially borrow further under our line of credit or other borrowing arrangements, it is possible that our business will not generate sufficient cash flow from operations to meet any debt service requirements and the payment of principal when due depending on the amount of borrowings at any given time. If this were to occur, we may be forced to:

- sell assets at disadvantageous prices;
- obtain additional financing on less favorable terms; 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 current credit agreement, we must:

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

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 or requirements could permit the lending organization to accelerate outstanding amounts so that it is immediately due and payable. If a breach occurs, no further borrowings would be available under our credit arrangement. If we are unable to repay any outstanding amounts, the lending organization could proceed against and foreclose on the assets we pledged as collateral to secure payment of our indebtedness.

Our current credit agreement contains a variable interest rate and increases to such rate may increase our borrowing cost.

The interest expense charged on our outstanding borrowings under our current credit agreement is based upon a variable rate which fluctuates as interest rates change. Changes in macroeconomic conditions outside of our control could result in a higher interest rate being charged on our outstanding borrowings and an increase in the overall interest costs charged. This could have an adverse impact on our operations, our free cash flow and our ability to invest in future growth.

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. The 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, 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.

In 2023, we had significant growth in our revenue and operations. Our strategy envisions the continued 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. Continued rapid growth will likely challenge and place a strain on our management systems and

resources if we are unable to timely adapt and expand such systems and resources. Many of our ongoing reporting functions rely on data capture and recording using manual entry of transaction data. In order to efficiently and effectively manage our planned growth, we will need to continue to analyze and upgrade our use of technology, including our ERP and other operating systems and this will likely require future capital investment. We must continue to refine and expand our business capabilities, our workforce, our systems and processes, and our access to financing sources. As we continue to grow, 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 field management infrastructure so that it is appropriate for our level of activity;
- continue to improve our systems effectively or efficiently and 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, sales staff, district managers 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 as well as the property of certain other third parties 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 coverage.

Our income taxes may change.

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

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

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

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting. If we fail to remediate our material weakness or 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.

We rely on computer and telecommunications systems, and failures in our systems or cyber security attacks or breaches could result in information theft, data corruption, disruption in operations and/or financial loss.

In the conduct of our business, we rely heavily on information technology systems("digital technology"), including internet-based systems, to process, transmit and store electronic information. In particular, we depend upon our digital technology for supply chain management, inventory management, payment processing and data storage. Like many companies, we have become increasingly dependent upon digital technology to conduct daily operations. Our business partners, including vendors, service providers and financial institutions, are also dependent upon digital technology.

We are continually exposed to various cybersecurity risks, including but not limited to, unauthorized access to our systems or data, malware and ransomware attacks, denial-of-service attacks, phishing, theft or loss of intellectual property, and data breaches. These risks could result from malicious actors, employee error, malfeasance, or other operational vulnerabilities. A cybersecurity attack could have a significant adverse impact on our business operations, financial condition and reputation. Potential consequences include loss of sensitive or proprietary information, disruption of business operations, financial losses from remedial actions, litigation and potential legal liabilities and damage to customer and investor confidence.

We have taken steps to protect against cyber-attacks to minimize the risk of our systems being penetrated and compromised by implementing a comprehensive cybersecurity program, such as regular risk assessments and penetration testing, deployment of firewalls and intrusion detection systems, deployment of encryption technologies, implementation of access controls and the development of incident response and recovery plans. Additionally, we have employed data backup and storage measures that could allow for recovery of our data. However, we cannot assure that our efforts to prevent such an attack or, that if an attack were to occur, that we would be able to access our data in a timely fashion.

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 as of March 28, 2024, an aggregate of approximately 37.1% of the outstanding shares of our common stock are owned by five institutional investors, each of which owns more than 5% of our outstanding shares as of the date of their respective filings. 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 7.3% of the outstanding shares of our common stock as of March 28, 2024, 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 price will likely be volatile and its value may be adversely affected.

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

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

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

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

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

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

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;
- advance notice for nominations of directors by shareholders and for shareholders to include matters to be considered at our annual meeting;
- 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

ITEM 1C. - CYBERSECURITY

Information Technology and Cybersecurity Risks.

Our information technology, software and application systems (“digital technology’) has been an important part of our operations and our ability to compete successfully. We continue to invest in technology solutions to improve more inefficient systems, to streamline and automate workflows and to provide digital and mobile applications for our field service personnel. We are committed to maintaining robust cybersecurity measures, continuously evaluating and updating our cybersecurity practices, and being prepared to respond to and recover from cybersecurity incidents. We face ongoing risk from cybersecurity threats. There can be no assurance that our efforts will prevent or mitigate all cybersecurity events, which, if realized, could have a material impact on our operations and financial results. See Part I, Item 1A “Risk Factors” of this Report.

Cybersecurity Incidents

We have not experienced any material cybersecurity incidents nor have we identified risks from known threats that could likely materially impacted our operations or financial results.

Management of Cybersecurity Risk

During 2023, we adopted a Cybersecurity Event Plan (“Cybersecurity Plan”) which outlines how we identify and manage our cybersecurity risk. The Cybersecurity Plan contains the following elements:

- *Incident Identification and Reporting* – outlines the steps used to promptly identify cybersecurity risks and report those through appropriate means;
- *Incident Assessment* –after collecting information about a potential risk or threat, a protocol has been developed and outlined that will allow a cross-functional team to assess the threat;
- *Incident Containment*–provides for action to be taken to isolate and attempt to contain and minimize any potential threat;
- *Resolution and Recovery*– outlines the steps to be taken, based upon the incident and the systems potentially impacted, to mitigate the potential impact of the threat and restore system access and functionality in the minimum amount of time;
- *Training and Awareness*–development of training and awareness programs to allow employees to understand how to promptly respond in the event of a perceived threat.

Governance

Our Board of Directors has an active role in oversight of our risks and is assisted by management in the exercise of these responsibilities. Our Manager of Information Technology prepares and gives a presentation to the Board at each of its quarterly meetings, which includes updates on cybersecurity. Our IT Manager is responsible for assessing and managing risks from cybersecurity threats and carrying out our formal cybersecurity event plan. Our IT Manager is responsible for reporting material incidents to our Chief Executive Officer, who in turn will report to the Lead Independent Director. Our IT Manager has over 20 years of information technology experience in the energy industry.

ITEM 2. PROPERTIES

The table below describes the material facilities owned or leased by Natural Gas Services Group as of December 31, 2023:

Location	Status	Square Feet	Uses
Tulsa, Oklahoma	Owned and Leased	91,780	Compressor fabrication, rental and services
Midland, Texas	Owned	70,000	Compressor repair and overhaul, 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
Bridgeport, Texas	Leased	4,500	Office and parts and services
Midland, Texas	Owned	4,100	Parts and services
Carrollton, Ohio	Leased	2,600	Parts and services
Wheeler, Texas	Leased	2,160	Parts and services

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 material 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, 2023, as reflected by our transfer agent records, we had 7 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 28, 2024, the last reported sale price of our common stock as reported by the New York Stock Exchange was $19.43 per share.

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, 2023:

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	129,751 [1]	$ 20.59	415,085
2019 Equity Incentive Plan	133,898	$ 10.66	405,833
Total	263,649		820,918

[1] Total number of shares issuable upon exercise of options granted to employees, officers, and directors under our 1998 Stock Option Plan.

Sale of Unregistered Securities and Issuer Repurchases

We made no sales of unregistered securities during the year ended December 31, 2023, nor any repurchases during 2023.

ITEM 6. RESERVED

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, 2023 and 2022. 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 rent, operate and maintain, as well as sell natural gas compressors and related equipment. We also design, fabricate and manufacture compressor units both for sale and rental to our customers. Some fabrication work is done in-house with an increasing amount done by third-party contractors. 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 than our small and medium horsepower units. 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, 2023, we had 1,247 natural gas compressors totaling 420,432 horsepower rented to 84 customers, compared to 1,221 natural gas compressors totaling 318,350 horsepower rented to 81 customers at December 31, 2022. Of the 420,432 horsepower rented as of December 31, 2023, we had 279,238 of the total horsepower operating under contracts expiring between 2024 and 2028 and we had 141,194 of that horsepower rented on a month-to-month basis. Of the 1,247 compressors rented at December 31, 2023, 773 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 minimum three to twelve 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. Finally due to supply chain disruptions as a result of the COVID-19 pandemic, the Russian invasion of the Ukraine and the increased rate of inflation, we continue to experience cost increases and sporadic unavailability of many of our parts needed to fabricate and maintain our rental fleet. While we have a robust supplier network, pricing pressure from our customers and competitors presents challenges in increasing our rental rates to offset these increased costs which 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 use third-party contractors for fabrication and these companies may experience the same risks.

In December 2023, we decided to cease fabrication of new compressor units for sale or rental to customers at our Midland, Texas facility. We continue to maintain new unit compressor fabrication capability at our Tulsa, Oklahoma facility as well as having relationships with multiple outsourced compressor fabrication providers.

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. Although we have significantly de-emphasized our flare product line, we continue to hold a limited inventory of 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 aftermarket services to our non-rental customers under written maintenance contracts or on an as-required basis in the absence of a service contract.

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

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Rental	$ 106,159	$ 74,465
Sales	8,921	8,568
Aftermarket Services	6,087	1,792
Total	$ 121,167	$ 84,825

Our strategy for growth is focused on our compressor rental business. Margins, exclusive of depreciation and amortization, for our rental business have historically run in the mid-40% to low-60% range, while margins for the compressor sales business tend to be in the mid-20% range.

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 result in greater revenues and profits for service and equipment companies.

Generally, higher commodity prices lead to higher capital expenditures by oil and natural gas producers and higher levels of production. In general, we expect our overall business activity and revenues to track the level of activity in the oil and natural gas industry, specifically production levels, 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 latter 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 single and multiple larger horsepower compressor packages. We recognized this need in recent years and have shifted our cash and fabrication resources towards designing, fabricating and renting gas compressor packages that range from 400 horsepower up to 2,500 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. In recent years, our level of activity has become more largely driven by the price of crude oil as opposed to natural gas. During the first quarter of 2020, due to COVID, we saw a substantial decline in the prices for oil and natural gas. While prices largely recovered in 2021 and then stabilized in 2022 and 2023, activity levels of exploration and production companies have been and will continue to be dependent not only on commodity prices, but also on their ability to generate sufficient operational cash flow to fund their activities. Generally, we feel that the level of demand for our compressor services is more closely tied to production activities, which are likely to fare better than drilling activity in periods of declining commodity prices.

For fiscal year 2024, our forecasted capital expenditures will be directly dependent upon our customers' compression requirements and our capital availability, assuming prudent use of leverage. We believe that cash on hand, cash flows from operations and borrowings under our revolving credit facility will be sufficient to satisfy our capital and liquidity requirements through 2024. 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;
- provision for credit losses;
- accounting for income taxes;
- accounting for long-lived assets; and
- accounting for inventory.

Revenue Recognition Policy

Our 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. Our rental business follows ASC 842 for revenue recognition. In accordance with 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, 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 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. Our sales and aftermarket services follow ASC 606 for revenue recognition.

Provision for Credit Losses

We perform ongoing credit evaluations of our customers and adjust credit limits based on management's assessment of the customer's financial condition, third-party credit reports 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 provision for credit losses is adequate; however, actual write-offs may exceed the recorded provision.

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

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 estimated useful lives between 15 to 25 years, while our property and equipment has estimated 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 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.

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. For the year ended December 31, 2023, our provision for excess and obsolete inventory totaled $4.0 million. The majority of this amount was due to a 2023 charge related to the company's decision to cease future compressor fabrication at our Midland facility, which reduced the expected future demand of certain inventory items held at this facility.

Our Performance Trends and Outlook

The market for compression equipment and services is highly dependent on the production levels of oil and natural gas. The level of production for oil 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. We feel that the current oil market production outlook is favorable, with current oil prices creating strong incentives for our customers to maximize their production levels. We believe that the current natural gas market outlook is not as strong, as the current level of natural gas prices makes this a more challenging market. While oil prices have historically been volatile, we expect demand for our existing compressor fleet to remain positive assuming oil prices remain in reasonable bands around current pricing levels. While the current production outlook for natural gas is not as strong, given the continued level of depressed prices, we do feel that opportunities exist for specialized compression applications, including for our small and medium horsepower units.

The oil and natural gas industries have historically been cyclical and production levels of oil and natural gas are dependent upon numerous factors. We will continue to evaluate our business and operating strategy and we will continue to remain prudent in both our allocation of capital and our capital structure. Nevertheless, if any of these circumstances change, our business could be adversely affected.

Results of Operations

Year Ended December 31, 2023 Compared to the Year Ended December 31, 2022

The table below shows our revenues and percentage of total revenues for each of our product lines for the years ended December 31, 2023 and 2022.

	Revenue			
	Year Ended December 31,			
	2023		2022	
	(dollars in thousands)			
Rental	$ 106,159	87.6 %	$ 74,465	87.8 %
Sales	8,921	7.4 %	8,568	10.1 %
Service & Maintenance	6,087	5.0 %	1,792	2.1 %
Total	$ 121,167		$ 84,825	

Total revenue increased to $121.2 million from $84.8 million, or 42.8%, for the year ended December 31, 2023, compared to 2022. This increase was mainly a result of increased rental revenue (42.6% increase) primarily due to a greater number of large horsepower units being rented and rental unit price increases as well as higher aftermarket service revenue (239.7% increase) primarily due to increased compressor sets and related freight charges.

Rental revenue increased to $106.2 million (42.6%) from $74.5 million for the year ended December 31, 2023, compared to 2022. Rental revenues comprised 87.6% of our total revenues for the years ended December 31, 2023, compared to 87.8% for 2022. As of December 31, 2023, we had 1,876 natural gas compressors in our rental fleet, up from 1,869 units at year end 2022. In addition, the Company's total unit horsepower increased by 22.3% to 520,365 at December 31, 2023, compared to 425,340 horsepower at year end 2022. As of December 31, 2023, we had 1,247 natural gas compressors totaling 420,432 horsepower rented to 84 customers, compared to 1,221 natural gas compressors totaling 318,350 horsepower rented to 81 customers as of December 31, 2022. This increase in rented horsepower reflects the addition of 73 high horsepower compressors with 94,340 horsepower to the Company's fleet during 2023. The rental fleet had unit utilization as of December 31, 2023 and 2022 of 66.5% and 65.3%, respectively, while our horsepower utilization for the same periods was 80.8% and 74.8%, respectively. The increase in both utilization metrics was mainly the result of the addition and increased demand for our higher horsepower units. During the year ended December 31, 2023, we placed into service 92 newly set units, 73 of which were 400 horsepower or larger.

Sales revenue increased to $8.9 million from $8.6 million for the year ended December 31, 2023, compared to 2022. This increase is largely attributable to an increase in parts sales during 2023. Sales are subject to fluctuations in the timing of industry activity related to capital projects and, as such, can vary substantially between periods.

Company management routinely reviews its inventory for obsolescence. Due to the slow-moving nature, obsolescence of a portion of the Company's long-term inventory, inventory related to the retirement of certain rental equipment and management's decision to cease further fabrication at our Midland fabrication facility, we recorded an increase of $4.0 million in the inventory allowance reserve to reduce the carrying amount of inventory items where we feel there is reduced future demand for certain items. We ended 2023 with an inventory allowance balance of $4.0 million.

Company management also routinely reviews its rental fleet to determine which units are no longer of the type, configuration, make or model that our customers are demanding or that are not cost efficient to refurbish, maintain and/or operate. As a result of this review, we determined 95 units should be retired from our rental fleet. Accordingly, we recorded a $0.5 million loss on retirement of rental equipment during the year ended December 31, 2023.

Operating income increased to $10.5 million for the year ended December 31, 2023, compared to $0.4 million for the year ended December 31, 2022. The increase in operating income was mainly due to a $36.3 million increase in revenues partially offset by a $2.8 million increase in selling, general and administrative expenses and a $11.1 million increase in costs of rentals primarily related to growth of our rental fleet and inflationary pressures on parts and labor expenses.

Selling, general, and administrative expenses increased by $2.8 million to $16.5 million for the year ended December 31, 2023, as compared to $13.6 million for 2022. This 20.6% increase was primarily the result of increased consulting and recruiting charges related to interim executive roles and search firms partially offset by a decrease in officer bonus accruals.

Depreciation and amortization expense increased to $26.6 million from $24.1 million, or 10.1%, for the year ended December 31, 2023, compared to 2022. The increase is the result of new units added to our rental fleet in 2023. We added 92 units (approximately 98,349 horsepower) to our fleet during the twelve-month period ended December 31, 2023. Seventy-three of those units were 400 horsepower or larger, representing approximately 96% of the horsepower added.

Income tax expense increased to $1.9 million from $0.5 million for the year ended December 31, 2023, compared to 2022. Our effective tax rate for both years differs from the U.S. federal statutory rate of 21%. The Company recorded a current income tax expense of $0.5 million on its consolidated statement of operations for the year ended December 31, 2022. Our income tax expense in 2023 was largely due to certain executive severance compensation expenses incurred during 2023 that are non-deductible for income tax purposes. As such, we recognized income tax expense of $1.9 million while incurring net income before income taxes of $6.6 million for the year ended December 31, 2023.

Adjusted Gross Margin Year Ended December 31, 2023 Compared to the Year Ended December 31, 2022

The table below shows our adjusted gross margin and related percentages for each of our product lines for the years ended December 31, 2023 and December 31, 2022. Adjusted gross margin is the difference between revenue and cost of revenues, exclusive of depreciation and amortization expense.

	Adjusted Gross Margin [(1)]			
	Year Ended December 31,			
	2023		2022	
	(dollars in thousands)			
Rental	$ 57,282	54.0 %	$ 36,715	49.3 %
Sales	2	— %	918	10.7 %
Service & Maintenance	1,429	23.5 %	835	46.6 %
Total	$ 58,713	48.5 %	$ 38,468	45.3 %

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

Our overall adjusted gross margin percentage increased to 48.5% for the year ended December 31, 2023, compared to 45.3% for the year ended December 31, 2022. Our increase in gross margin is mainly due to an increase in rental revenues. Rental revenues increased 42.6% over 2022, while our costs of rentals increased 29.5% driven by additional units sets and inflationary pressures primarily in labor and parts costs. Our sales margin decreased to 0.0% in 2023 from 10.7% in 2022. Sales revenues increased 4.1% attributable to increased parts sales. While many sales costs are variable, certain costs such as labor or fixed overhead are less variable as a certain staff level is retained to meet demand when market forces shift. Third party aftermarket services margin decreased to 23.5% from 46.6% for the year ended December 31, 2023, compared to 2022. This decrease is primarily attributable to a large increase in lower margin pass through costs related to new compressor sets during 2023. Aftermarket services only represents 5.0% of our revenue in 2023, providing minimal impact on our overall adjusted gross margin.

Non-GAAP Financial Measures

Our definition and use of Adjusted EBITDA

"Adjusted EBITDA" is a non-GAAP financial measure that we define as earnings (net income or (loss)) before interest, taxes, depreciation and amortization, as well as an increase in inventory allowance and inventory impairment expense, retirement of rental equipment, non-recurring severance expenses and non-cash equity compensation expenses. 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 all 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 income (loss), the most directly comparable GAAP financial measure, to Adjusted EBITDA:

	Year Ended December 31,	
	2023	**2022**
	(in thousands)	
Net income (loss)	$ 4,747	$ (569)
Interest expense	4,082	364
Income tax expense	1,873	528
Depreciation and amortization	26,550	24,116
Impairment expense	779	—
Inventory allowance	3,965	83
Retirement of rental equipment	505	196
Severance expenses	1,224	2,537
Stock compensation expense	2,054	1,910
Adjusted EBITDA	$ 45,779	$ 29,165

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,	
	2023	**2022**
	(in thousands)	
Total revenue	$ 121,167	$ 84,825
Costs of revenue, exclusive of depreciation and amortization	(62,454)	(46,357)
Depreciation allocable to costs of revenue	(25,856)	(23,551)
Gross margin	32,857	14,917
Depreciation allocable to costs of revenue	25,856	23,551
Adjusted gross margin	$ 58,713	$ 38,468

Liquidity and Capital Resources

Our working capital positions as of December 31, 2023 and 2022 were as follows:

	As of December 31,	
	2023	**2022**
	(in thousands)	
Current Assets:		
Cash and cash equivalents	$ 2,746	$ 3,372
Trade accounts receivable, net	39,186	14,668
Inventory, net	21,639	23,414
Federal income tax receivable	11,538	11,538
Prepaid expenses and other	1,162	1,155
Total current assets	76,271	54,147
Current Liabilities:		
Accounts payable	17,628	6,481
Accrued liabilities	15,085	23,918
Total current liabilities	32,713	30,399
Net working capital	$ 43,558	$ 23,748

For the year ended December 31, 2023, we invested approximately $153.9 million in rental equipment, property and other equipment. During the year, we added $152.5 million in new equipment to our rental fleet and $1.4 million in other property and equipment. Our investment in rental 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 increased by $13.8 million during

2023. We financed our investment in rental equipment, property and other equipment with cash flows from operations during 2023 and borrowings under our revolving credit facility. We anticipate that our cash flows from operations as well as our borrowing capacity under our Amended and Restated Credit Agreement (defined below) will provide ample liquidity for our planned capital expenditures during 2024 and beyond.

Cash flows

At December 31, 2023, we had cash and cash equivalents of $2.7 million compared to $3.4 million at year end 2022. Our cash flow from operations of $18.0 million was offset by capital expenditures of $153.9 million during 2023. We had net proceeds of $139.0 million from borrowings under our revolving credit facility. We also had working capital of $43.6 million at December 31, 2023, compared to $23.7 million at December 31, 2022. We had net cash flow from operating activities of $18.0 million during 2023 compared to $27.8 million during 2022. Our cash flow from operating activities of $18.0 million was negatively impacted by changes in working capital. Certain such changes were caused by a significant increase in rental activity, which led to delays in billing and collecting amounts due from certain customers. We anticipate a reversal of this trend during 2024 and a return to more historical levels of working capital.

Senior Bank Borrowings

On May 11, 2021, we entered into a five-year senior secured revolving credit agreement ("Credit Agreement") with Texas Capital Bank, National Association (the "Lender") with an initial commitment of $20 million and an accordion feature that would increase the maximum commitment to $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 $30 million on the aggregate commitment; provided, however, the aggregate commitment amount is not permitted to exceed $50 million. The maturity date of the Credit Agreement is May 11, 2026. The obligations under the Credit Agreement are secured by a first priority lien on a variety of our assets, including inventory and accounts receivable as well as a variable number of our leased compressor equipment.

On February 28, 2023, we replaced our Credit Agreement by entered into a five-year senior secured revolving credit agreement (“Amended and Restated Credit Agreement”) with Texas Capital Bank, as administrative agent (the “Lender”), TCBI Securities, Inc., as joint lead arranger and sole book runner and Bank of America, N.A., as joint lead arranger, with an initial commitment of $175 million as of the closing date. Subject to collateral availability, we also have a right to request from the Lender, on an uncommitted basis, an increase of up to $125 million on the aggregate commitment; provided, however, the aggregate commitment amount is not permitted to exceed $300 million. The maturity date of the Amended and Restated Credit Agreement is February 28, 2028. The obligations under the Amended and Restated Credit Agreement are secured by a first priority lien on a variety of our assets, including inventory and accounts receivable as well as a variable number of our leased compressor equipment. In connection with the amendment, we agreed to pay fees of $2.0 million (representing fees equal to 1.39% of the $145 million increase in the commitment) and reimburse the lenders for their expenses. The obligations under the Amended and Restated Credit Agreement are secured by a first priority lien on a variety of our assets, including inventory and accounts receivable as well as a variable number of our leased compressor equipment.

On November 14, 2023, the Company entered into a First Amendment to the Amended and Restated Credit Agreement (the 'Amendment") with the Lender and certain other lenders to (i) increase the lender commitment from $175 million to $225 million, and (ii) to add First-Citizens Bank & Trust Company as a new lender to the facility. In connection with the Amendment, we agreed to pay fees of $0.6 million (representing fees equal to 1.125% of the $50 million increase in the commitment) and reimburse the lenders for their expenses.

Borrowing Base. At any time before the maturity of the Amended and Restated 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) 85% of eligible accounts receivable owed to the Company, plus (b) 50% of the eligible inventory, valued at the lower of cost or market value at such time, subject to a cap of this component not to exceed $2.5 million, plus (c) the lesser of (i) 95% of the net book value of the compressors that the Lender has determined are eligible for the extension of credit, valued at the lower of cost or market value with depreciation not to exceed 25 years, at such time and (ii) 80% of the net liquidation value percentage of the net book value of the eligible compressors that the Lender has determined are eligible for the extension of credit, valued at the lower of cost or market value with depreciation not to exceed 25 years, at such time, plus (d) 80% of the net book value, valued at the lower of cost (excluding any costs for capitalized interest or other noncash capitalized costs) or market of the eligible new compressor fleet, minus (e) any required availability reserves determined by the Lender in its sole discretion. 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 and Restated Credit Agreement, we have the option of selecting the applicable variable rate for each revolving loan, or portion thereof, of either (a) the Base Rate (as defined below) plus the Applicable Margin, or (b) in the case of a Term SOFR ("Secured Overnight Financing Rate") Loan, the Adjusted Term SOFR rate plus the Applicable Margin. "Base Rate" means, for any day, a rate of interest per annum equal to the highest of (a) the

prime rate for such day; (b) the sum of the federal funds rate for such day plus 0.50%; and (c) the Adjusted Term SOFR for such day plus 1.00%. The Applicable Margin is determined based upon the leverage ratio as set forth in the most recent compliance certificate received by the Lender for each fiscal quarter from time to time pursuant to the Amended and Restated Credit Agreement. Depending on the leverage ratio, the Applicable Margin can be 2.00% to 2.75% for Base Rate Loans (as defined in the Amended and Restated Credit Agreement) and 3% to 3.75% for Term SOFR Loans and for requested letters of credit. In addition, we are required to pay a monthly commitment fee on the daily average unused amount of the commitment while the Amended and Restated Credit Agreement is in effect at an annual rate equal to 0.50% of the unused commitment amount. Accrued interest is payable monthly on outstanding principal amounts and unused commitment fee, provided that accrued interest on Term SOFR Loans is payable at the end of each interest period, but in no event less frequently than quarterly.

Covenants. The Amended and Restated Credit Agreement contains customary representations and warranties, as well as covenants which, among other things, condition or 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 are subject to certain financial covenants in the Amended and Restated Credit Agreement that require us to maintain (i) a leverage ratio, as defined, lesser than or equal to 3.50 to 1.00 as of the last day of each fiscal quarter ending on or prior to December 31, 2024 and 3.25 to 1.00 for the fiscal quarter ending March 31, 2025 and for each fiscal quarter thereafter and (ii) a fixed charge coverage ratio greater than or equal to1.25 to 1.00 as of the last day of each fiscal quarter.

Events of Default and Acceleration. The Amended and Restated 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 Amended and Restated Credit Agreement and the other 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 $1 million; certain bankruptcy or insolvency events; the rendering of certain judgments in excess of $1 million; certain ERISA events; certain change in control events and the defectiveness of any liens under the secured revolving credit agreement. Obligations outstanding under the Amended and Restated Credit Agreement may be accelerated upon the occurrence of an event of default.

As of December 31, 2023, we had $164 million outstanding under our Amended and Restated Credit Agreement with a weighted average interest rate of 9.40%, and we were in compliance with all financial covenants in our Amended and Restated Credit Agreement.

Components of Our Principal Capital Expenditures

Capital expenditures for the years ended December 31:

Expenditure Category	2023	2022
	(in thousands)	
Rental equipment and property and equipment	$ 153,943	$ 65,122

The level of our capital 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 2024. 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 other economic factors. Please see Item 1A, Risk Factors, of this report.

Off-Balance Sheet Arrangements

From time-to-time, we enter into off-balance sheet arrangements and transactions that can give rise to off-balance sheet obligations. As of December 31, 2023, we did not have any material off-balance sheet arrangements.

Recently Issued Accounting Pronouncements

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. January 1, 2023, we adopted ASU 2016-13 on our consolidated financial statements and note disclosures. The adoption did not have a material impact on our financial statements.

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 DISCLOSURES ABOUT MARKET RISK

Not applicable to Smaller Reporting Companies.

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

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (2) accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2023. Based upon the evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were not effective at a reasonable assurance level, due to the material weakness that was previously disclosed effective December 31, 2022 and discussed below.

Management’s Report on Internal Control Over Financial Reporting

Our management, including the Chief Executive Officer and our Interim Chief Accounting Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (“ICFR”), as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance

regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with GAAP.

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.

Our management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2023, based on the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on the results of this evaluation, the Company's management concluded that internal control over financial reporting was not effective as of December 31, 2023, due to the unremedied material weakness listed below.

A material weakness is a deficiency, or a combination of deficiencies, in ICFR, 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.

We have concluded that the following material weakness in our ICFR that was previously disclosed in our Annual Report on Form 10-K for the year ended December 31,2022 has not been fully remediated as of December 31, 2023.

Management identified a material weakness in its ICFR at December 31, 2023, over our inventory process. Specifically, we have identified issues related to year-end physical inventory count procedures, and the process to review and approve inventory adjusting journal entries.

After giving full consideration to this material weakness, and the additional analyses and other procedures that we performed to ensure that our consolidated financial statements included in this Annual Report on Form 10-K were prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), our management has concluded that our consolidated financial statements present fairly, in all material respects our financial position, results of operations and cash flows for the periods disclosed in conformity with US GAAP.

Remediation Plan for Previously Identified Material Weakness

Management, with the oversight of the Audit Committee and the Board of Directors, has been actively engaged in remediation efforts to address the material weakness throughout 2023, and these efforts will continue into 2024.

We made progress towards addressing our material weakness in inventory through the specific actions listed below:

- We have made and continue to make enhancements to our control environment by improving guidance, communication of expectations and importance of internal controls. Specifically, in the second quarter of 2023, we engaged a third-party consulting firm, who specializes in internal controls over financial reporting, to assist with the design, implementation, and assessment of our controls and procedures.

- We have hired additional qualified operational and executive personnel during 2023, which has helped to provide additional capacity and expertise to enhance inventory procedures. Specifically, in the third quarter of 2023, the Company hired a new Inventory Control Manager who assumed direct responsibility for inventory procedures and controls. Additionally. in the fourth quarter of 2023, the Company hired a new President and Chief Operating Officer, who is also deeply involved in the inventory process. The Company is also currently assessing if additional accounting and financial personnel should be hired in the organization in order to perform control activities in support of preparation of the financial statements in accordance with U.S. GAAP. We expect that this assessment will be completed during the second quarter of 2024, with appropriate action taken during 2024, to ensure that the Company has a sufficient complement of qualified personnel at the right levels, based on any identified gaps in personnel requirements.

- We have evaluated and improved the inventory process and procedures. Specifically, we have retrained all involved personnel in the inventory process, with emphasis on periodic count procedures and inventory adjustments.

- We have updated our inventory accounting policies and procedures to ensure completeness and accuracy of inventory accounts through proper cutoff, accruals, and analytic review procedures at period end.

While these actions and planned actions are subject to ongoing management evaluation and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles, we are committed to the continuous improvement of our ICFR and will continue to diligently review our ICFR.

Attestation Report of the Registered Public Accounting Firm

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm on our ICFR because we are a Smaller Reporting Company and are not subject to auditor attestation requirements under applicable SEC rules.

Changes in Internal Control Over Financial Reporting

Other than the changes noted above there were no changes in our ICFR during the year ended December 31, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURES REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to the sections “Election of Directors,” “Executive Officers,” “Corporate Governance” and “The Board of Directors and its Committees” in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2023 or as such period may be extended by action of the Securities and Exchange Commission.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the section “Executive Compensation” in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2023 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, 2023 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, 2023 or as such period may be extended by action of the Securities and Exchange Commission.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section “Principal Accountant Fees and Services” in our definitive proxy statement which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2023 or as such period may be extended by action of the Securities and Exchange Commission.

PART IV

ITEM 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

(a)(3) Exhibits

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

Exhibit No.	Description
3.1	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 of the 10-QSB filed and dated November 10, 2004).
3.2	Bylaws, as amended (Incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 10, 2021.)
4.1	Description of Securities (Incorporated by reference to the Registrant's Registration Statement on From 8-A, filed with the SEC on October 27, 2008.)
4.2	Form of Senior Indenture (Incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on From S-3 (No. 333-261091) and filed on November 16, 2021)
4.3	Form of Subordinated Indenture (Incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form S-3 (No. 333-261091) and filed on November 16, 2021
10.1†	2019 Equity Incentive Plan, as amended (Incorporated by reference to Exhibit 4.3 of the Registrant’s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 12, 2022.)
10.2†	Stock Option Plan, as amended and restated (Incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 21, 2016.)
10.3†	Retirement Agreement dated May 17, 2022 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 May 19, 2022.)
10.4†	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.)
10.5	Amended and Restated Credit Agreement dated February 28, 2023, among Natural Gas Services Group, Inc., the other Loan Parties thereto, Texas Capital Bank, in its capacity as Administrative Agent and the Lenders party thereto (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 March 6, 2023.)
10.6	Amended and Restated Pledge and Security Agreement dated February 28, 2023, among Natural Gas Services Group, Inc., the Grantors thereto, Texas Capital Bank, in its capacity as Administrative Agent, for the Lenders and other Secured Parties (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 March 6, 2023.)
10.7†	Retention Agreement dated September19, 2023 between Natural Gas Services Group, Inc. and James Hazlett (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 November 14, 2023.)

10.8†	Employment Agreement between Brian L. Tucker and Natural Gas Services Group, Inc. dated October 9, 2023 (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 October 10, 2023.)
10.9†	Employment Agreement between Justin C. Jacobs and Natural Gas Services Group, Inc. dated January 29, 2024 (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 February 1, 2024.)
10.10†	Employee Non-Compete Agreement between Justin C. Jacobs and Natural Gas Services Group, Inc. dated January 29, 2024 (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 February 1, 2024.)
10.11 †	Employee Proprietary Rights Agreement between Justin C. Jacobs and Natural Gas Services Group, Inc. dated January 29, 2024 (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 February 1, 2024.)
10.12*†	Form of Restricted Stock Unit Award under the Natural Gas Services Group, Inc. 2019 Equity Incentive Plan, as amended.
10.13*†	Form of Performance Stock Unit Award under the Natural Gas Services Group, Inc. 2019 Equity Incentive Plan, as amended.
*21.1	Subsidiaries of the registrant
*23.1	Consent of Ham, Langston & Brezina L.L.P.
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Interim 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 Interim Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
97.1*	Natural Gas Services Group, Inc. Clawback Policy
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.

April 1, 2024

By: /s/ Justin C. Jacobs
Justin C. Jacobs
Chief Executive Officer

(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Justin Jacobs and John Bittner, jointly and severally, as his/her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him/her and in his/her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises hereby ratifying and confirming all that said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ Stephen C. Taylor Stephen C. Taylor	Chairman of the Board of Directors	April 1, 2024
/s/ John Bittner John Bittner	Interim Chief Financial Officer (Principal Accounting Officer)	April 1, 2024
/s/ Don Tringali Don Tringali	Director	April 1, 2024
/s/ Nigel J. Jenvey Nigel J. Jenvey	Director	April 1, 2024
/s/ David L. Bradshaw David L. Bradshaw	Director	April 1, 2024
/s/ Georganne Hodges Georganne Hodges	Director	April 1, 2024

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Natural Gas Services Group, Inc. (the “Company”) as of December 31, 2023 and 2022, and related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2023, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

Our 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.

Critical Audit Matter

Critical audit matters are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Ham, Langston & Brezina LLP

Houston, Texas
April 1, 2024

We have served as the Company's auditor since 2022.

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

	December 31,	
	2023	2022
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,746	$ 3,372
Trade accounts receivable, net of allowance for doubtful accounts of $823 and $338, respectively	39,186	14,668
Inventory, net of allowance for obsolescence of $2,836 and $0, respectively	21,639	23,414
Federal income tax receivable	11,538	11,538
Prepaid expenses and other	1,162	1,155
Total current assets	76,271	54,147
Long-term inventory, net of allowance for obsolescence of $1,168 and $120, respectively	701	1,557
Rental equipment, net of accumulated depreciation of $191,745 and $177,729, respectively	373,649	246,450
Property and equipment, net of accumulated depreciation of $17,649 and $16,981, respectively	20,550	22,176
Intangibles, net of accumulated amortization of $2,384 and $2,259, respectively	775	900
Other assets	6,783	3,016
Total assets	$ 478,729	$ 328,246
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 17,628	$ 6,481
Accrued liabilities	15,085	23,918
Total current liabilities	32,713	30,399
Credit facility	164,000	25,000
Deferred income tax liability	41,636	39,798
Other long-term liabilities	4,486	2,973
Total liabilities	242,835	98,170
Commitments and contingencies (Note 15)		
Stockholders’ Equity:		
Preferred stock, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, 30,000 shares authorized, par value $0.01; 13,688 and 13,519 shares issued, respectively	137	135
Additional paid-in capital	116,480	115,411
Retained earnings	134,281	129,534
Treasury shares, at cost, 1,310 shares	(15,004)	(15,004)
Total stockholders' equity	235,894	230,076
Total liabilities and stockholders' equity	$ 478,729	$ 328,246

See accompanying notes to these consolidated financial statements.

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

	Year Ended December 31,	
	2023	**2022**
Revenue:		
Rental income	$ 106,159	$ 74,465
Sales	8,921	8,568
Aftermarket services	6,087	1,792
Total revenue	121,167	84,825
Operating costs and expenses:		
Cost of rentals, exclusive of depreciation stated separately below	48,877	37,750
Cost of sales, exclusive of depreciation stated separately below	8,919	7,650
Cost of aftermarket services, exclusive of depreciation stated separately below	4,658	957
Selling, general and administrative expenses	16,457	13,642
Depreciation and amortization	26,550	24,116
Impairment expense	779	—
Inventory allowance	3,965	83
Retirement of rental equipment	505	196
Total operating costs and expenses	110,710	84,394
Operating income	10,457	431
Other income (expense):		
Interest expense	(4,082)	(364)
Other income (expense)	245	(108)
Total other expense, net	(3,837)	(472)
Income (loss) before income taxes:	6,620	(41)
Provision for income taxes:		
Current	(35)	(17)
Deferred	(1,838)	(511)
Total income tax expense	(1,873)	(528)
Net income (loss)	$ 4,747	$ (569)
Earnings (loss) per share:		
Basic	$ 0.39	$ (0.05)
Diluted	$ 0.38	$ (0.05)
Weighted average shares outstanding:		
Basic	12,316	12,305
Diluted	12,383	12,305

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, 2021	—	$ —	13,394	$ 134	$ 114,017	$ 130,103	775	$ (8,344)	$ 235,910
Compensation expense on common stock options	—	—	—	—	255	—	—	—	255
Issuance of restricted stock	—	—	125	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	1	1,654	—	—	—	1,655
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(515)	—	—	—	(515)
Purchase of treasury shares	—	—	—	—	—	—	535	(6,660)	(6,660)
Net loss	—	—	—	—	—	(569)	—	—	(569)
BALANCES, December 31, 2022	—	—	13,519	135	115,411	129,534	1,310	(15,004)	230,076
Compensation expense on common stock options	—	—	—	—	97	—	—	—	97
Issuance of restricted stock	—	—	169	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	2	1,955	—	—	—	1,957
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(983)	—	—	—	(983)
Net income	—	—	—	—	—	4,747	—	—	4,747
BALANCES, December 31, 2023	—	$ —	13,688	$ 137	$ 116,480	$ 134,281	1,310	$(15,004)	$ 235,894

See accompanying notes to these consolidated financial statements.

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

	Year Ended December 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 4,747	$ (569)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	26,550	24,116
Amortization of debt issuance costs	425	48
Deferred taxes	1,838	511
Gain on disposal of assets	(481)	(250)
Impairment expense	779	—
Retirement of rental equipment	505	196
Provision for credit losses	492	—
Inventory allowance	3,965	83
Stock-based compensation	2,054	1,910
Loss on company owned life insurance	235	389
Changes in operating assets and liabilities:		
Trade accounts receivables	(25,010)	(4,279)
Inventory	(669)	(4,143)
Prepaid income taxes and prepaid expenses	(7)	(250)
Accounts payable and accrued liabilities	2,436	10,033
Other	174	(31)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,033	27,764
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of rental equipment, property and other equipment	(153,943)	(65,122)
Purchase of company owned life insurance	(422)	(329)
Proceeds from sale of property and equipment	477	372
NET CASH USED IN INVESTING ACTIVITIES	(153,888)	(65,079)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Proceeds from line of credit	139,000	25,000
Payments of other long term liabilities	(95)	(3)
Payments of debt issuance costs	(2,693)	(77)
Purchase of treasury shares	—	(6,660)
Taxes paid related to net share settlement of equity awards	(983)	(515)
NET CASH PROVIDED BY FINANCING ACTIVITIES	135,229	17,745
NET CHANGE IN CASH AND CASH EQUIVALENTS	(626)	(19,570)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,372	22,942
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,746	$ 3,372
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 7,053	$ 276
NON-CASH TRANSACTIONS		
Transfer of rental equipment to inventory	$ 665	$ —
Right of use asset acquired through a finance lease	$ 1,146	$ —
Right of use asset acquired through an operating lease	$ 63	$ 229

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. We rent, operate and maintain natural gas compressors and related equipment. We also design, fabricate and manufacture compressor units both for sale and rental to our customers. NGS is headquartered in Midland, Texas, with a fabrication facility located in Tulsa, Oklahoma, a rebuild shop in Midland, Texas, and service facilities located in major oil and natural gas producing basins in the U.S. The Company was formed on December 17, 1998.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its subsidiary, NGSG Properties, LLC and the rabbi trust associated with the Company’s deferred compensation plan, see Note 10. All significant intercompany accounts and transactions for the periods presented have been eliminated in consolidation.

Use of Estimates

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

Cash Equivalents and Financial Instruments

For purposes of reporting cash flows, we consider all short-term investments with an original maturity of three months or less to be cash equivalents. At times, cash balances at banks and financial institutions may exceed federally insured amounts.

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. The provision for credit losses was $0.8 million and $0.3 million at December 31, 2023 and 2022, respectively. Management believes that the allowance is adequate; however, actual write-offs may exceed the recorded allowance.

A summary of our allowance for credit losses is as follows:

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Beginning balance	$ 338	$ 1,129
Accruals	492	—
Write-offs	(7)	(791)
Ending balance	$ 823	$ 338

Revenue Recognition Policy

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

Nature of Goods and Services

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

Rental Revenue. The Company generates revenue from renting compressors and flare systems to our customers. These contracts, which all qualify as operating leases under ASC Topic 842, Leases (ASC 842), may also include a fee for servicing the compressor or flare during the rental contract. Our rental contracts typically range from six to 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 with 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. Our sales revenue is recognized in accordance with ASC 606.

Custom/fabricated compressors - The Company designs and fabricates compressors 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 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.

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 rebuild 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 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.

Aftermarket Service 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 aftermarket services 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,	
	2023	2022
	(in thousands)	
Compressors - sales	$ 1,800	$ 3,601
Flares - sales	87	239
Other (Parts/Rebuilds) - sales	7,034	4,728
Aftermarket services	6,087	1,792
Total revenue from contracts with customers	15,008	10,360
Add: ASC 842 rental revenue	106,159	74,465
Total revenue	$ 121,167	$ 84,825

Contract Balances

As of December 31, 2023 and 2022, we had the following receivables and deferred income from contracts with customers:

	December 31,	
	2023	2022
	(in thousands)	
Accounts Receivable		
Accounts receivable - contracts with customers	$ 7,138	$ 4,353
Accounts receivable - ASC 842	32,871	10,653
Total Accounts Receivable	40,009	15,006
Less: Allowance for doubtful accounts	(823)	(338)
Total Accounts Receivable, net	$ 39,186	$ 14,668
Deferred income	$ 418	$ 37

The Company recognized less than $0.1 million in revenue for the year ended December 31, 2023, that was included in accrued liabilities at the beginning of 2023. For the period ended December 31, 2022, the Company recognized revenue of $1.3 million from amounts related to sales that were included in deferred income at the beginning of 2022.

The increases (decreases) in 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, 2023, the Company had $0.4 million of 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

Accounting Standards Codification ("ASC") 842 requires all leases to be reported on the balance sheet as right-of-use ("ROU") assets and lease obligations. We determine if an arrangement is a lease at inception and determine lease classification and recognize ROU assets and liabilities on the lease commencement date based on the present value of lease payments over the lease term. As the discount rate implicit in the lease is rarely readily determinable, we estimate our incremental borrowing rate using information available at the commencement date in determining the present value of the lease payments. We, as a lessee, apply 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. For 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 has elected 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 2023 and 2022 amounted to 50% and 42% of revenue, respectively. No other single customer accounted for more than 10% of our revenues in 2023 and 2022. Oxy's accounts receivable balances amounted to 64% and 55% of our accounts receivable as of December 31, 2023 and 2022, respectively. No other customers amounted to more than 10% of our accounts receivable as of December 31, 2023 and 2022.

Inventory

Inventory (current and long-term) is valued at the lower of cost and net realizable value. The cost of inventories is determined by the weighted average method. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on current and anticipated customer demand and production requirements. The Company assesses anticipated customer demand based on current and upcoming capital expenditure budgets of its major customers as well as other significant companies in the industry, along with oil and natural gas price forecasts and other factors affecting the industry. In addition, our long-term inventory consists of raw materials and replacement parts that remain useable but which the Company does not expect to sell or use 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 estimated useful lives between 15 and 25 years, while our property and equipment has estimated useful lives which ranges 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 within selling, general, and administrative expenses. Maintenance and repairs are charged to cost of rentals as incurred.

Intangibles

At December 31, 2023 and 2022, 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 four years as of December 31, 2023. 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

When warranted, we accrue amounts for estimated warranty claims based upon current and historical product warranty costs and any other related information known. There was no warranty reserve as of December 31, 2023 and 2022.

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 net 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the statutory enactment date. Valuation allowances are established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

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. We have no uncertain tax positions as of December 31, 2023.

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

Capitalized Interest

Effective January 1, 2023, the Company began capitalizing interest from external borrowings on significant expenditures for the fabrication of its natural gas compressor equipment until such projects are ready for their intended use. Capitalized interest is added to the cost of the underlying asset and is amortized over the useful lives of the assets in the same manner as the underlying assets. For the year ended December 31, 2023, the Company capitalized interest totaling approximately $5.5 million.

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, and accounts payable at December 31, 2023 and 2022 approximate their carrying values due to the short-term nature of the instruments or the use of prevailing market interest rates. The company considered the borrowings under the credit facility to approximate fair value based upon borrowing rates currently available to us for loans with similar terms (level 2).

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 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 assess 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.

We are engaged in the business of designing and fabricating compressors. Our compressors are sold and rented to our customers. In addition, we provide aftermarket services on compressors in our fleet and to third parties. These business activities are similar in all geographic areas. Historically, our manufacturing process has been essentially the same for the entire Company and has been performed in-house at our facilities in Midland, Texas and Tulsa, Oklahoma. Increasingly, however, we have contracted with third party fabricators to assemble our larger horsepower natural gas compressors. Our customers primarily consist of entities in the business of producing oil and 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.

Recently Issued Accounting Pronouncements

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. As of January 1, 2023 we adopted ASU 2016-13. The standard did not materially affect our consolidated financial statements and note disclosures.

In December 2023, the Financial Standards Accounting Board ("FASB") issued Accounting Standards Update ("ASU") 2023- 09 "Income Taxes (Topics 740): Improvements to Income Tax Disclosures" to expand the disclosure requirements for income taxes, specifically related to the rate reconciliation and income taxes paid. ASU 2023-09 is effective for our annual periods beginning January 1, 2025, with early adoption permitted. The Company is currently evaluating the potential effect that the updated standard will have on the financial statement disclosures.

In November 2023, the FASB issued ASU 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" which expands annual and interim disclosure requirements for reportable segments, primarily through enhanced disclosures about significant segment expenses. ASU 2023-07 is effective for our annual periods beginning January 1, 2024, and for interim periods beginning January 1, 2025, with early adoption permitted. The adoption is not expected to have a material impact on the Company's Consolidated Financial Statements or disclosures.

3. Inventory

Our inventory, net of allowance for obsolescence of $4.0 million and $0.1 million at December 31, 2023 and 2022, respectively, consisted of the following:

	December 31,	
	2023	2022
	(in thousands)	
Inventory, net of allowance for obsolescence of $2,836 and $0, respectively	$ 20,227	$ 21,354
Work-in-process	1,412	2,060
Inventory current	21,639	23,414
Raw materials - long term (net of allowances of $1,168 and $120, respectively)	701	1,557
Inventory total	$ 22,340	$ 24,971

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

Inventory Allowance

We routinely review our inventory allowance balance to account for slow moving or obsolete inventory costs that may not be recoverable in the future. For the year ended December 31, 2023, our provision for excess and obsolete inventory totaled $4.0 million. The majority of this amount was due to a 2023 charge related to the company's decision to cease future compressor fabrication at our Midland facility, which reduced the expected future demand of certain inventory items held at this facility.

A summary of our inventory allowance is as follows:

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Beginning balance	$ 120	$ 64
Additions	3,965	83
Write-offs	(81)	(27)
Ending balance	$ 4,004	$ 120

4. Rental Equipment, Property and Equipment

Rental Equipment

Our rental equipment and associated accumulated depreciation as of December 31, 2023 and 2022, respectively, consisted of the following:

	December 31,	
	2023	2022
	(in thousands)	
Compressor units	$ 514,527	$ 387,145
Work-in-progress	50,867	37,034
Rental equipment	565,394	424,179
Accumulated depreciation	(191,745)	(177,729)
Rental equipment, net of accumulated depreciation	$ 373,649	$ 246,450

Our rental equipment has an estimated useful life between 15 and 25 years. Depreciation expense for rental equipment was $24.0 million and $21.9 million for the years ended December 31, 2023 and 2022, respectively.

Retirement of Rental Equipment

Management routinely reviews the Company's inventory of rental equipment for retirement or obsolescence. During 2023, management reviewed the rental fleet to determine which units were not of the type, configuration, make or model that our customers are demanding or that were not cost efficient to refurbish, maintain and/or operate. As a result of this review, we recorded a $0.5 million loss on retirement of rental equipment during the year ended December 31, 2023.

During our review of our rental compressor units in 2022, we recorded a $0.2 million loss on retirement of rental equipment.

Property and Equipment

Property and equipment consists of the following at December 31, 2023 and 2022:

	Useful Lives (Years)	December 31, 2023	December 31, 2022
		(in thousands)	
Land	—	$ 1,680	$ 1,680
Building	39	19,140	19,166
Leasehold improvements	39	1,295	1,218
Office equipment and furniture	5	2,039	2,016
Software	5	573	573
Machinery and equipment	7	4,113	4,052
Vehicles	3	8,770	9,858
Work-in-progress		589	594
Total		38,199	39,157
Less accumulated depreciation		(17,649)	(16,981)
Total		$ 20,550	$ 22,176

Depreciation expense for property and equipment was $2.4 million and $2.1 million for the year ended December 31, 2023 and 2022, 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, 2023 and 2022:

	December 31, 2023	December 31, 2022
	(in thousands)	
Rentals	$ 25,507	$ 23,243
Sales	260	275
Service & Maintenance	89	33
Corporate	569	440
Total	$ 26,425	$ 23,991

5. Rental Activity

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

Future minimum rent payments for arrangements not on a month-to-month basis at December 31, 2023, are as follows:

Years Ending December 31,	*(in thousands)*
2024	$71,965
2025	54,402
2026	41,127
2027	32,650
2028	18,463
Thereafter	—
Total	$218,607

6. Leases

The Company determines if an arrangement is a lease at inception by assessing whether it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company’s operating leases are primarily related to property leases for its field offices. The Company's operating leases have remaining lease terms of one to eight 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 finance leases are primarily related to vehicles used in our rental business. The company's finance leases have lease terms of 3 years.

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

Right of use assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As substantially all of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate, which is based on a fully collateralized loan over the lease term, to determine the present value of lease payments. The following table reflects the amounts related to leases that are recorded on our consolidated balance sheets as of December 31, 2023 and 2022:

	Classification on Consolidated Balance Sheets	**December 31, 2023**	**December 31, 2022**
		($ in thousands)	
Operating lease assets	Other assets	$ 210	$ 349
Finance lease assets	Other assets	$ 1,045	$ —
Current lease liabilities	Accrued liabilities	$ 58	$ 155
Current lease liabilities	Accrued liabilities	307	—
Non-current lease liabilities	Other long-term liabilities	173	194
Non-current lease liabilities	Other long-term liabilities	723	—
Total lease liabilities		$ 1,261	$ 349
Weighted average remaining lease term in years		3.1	4.5
Implicit Rate		9.1 %	5.2 %

Operating lease costs are recognized on a straight-line basis over the lease term. Total operating lease costs for the years ended December 31, 2023 and December 31, 2022 were approximately $0.5 million and $0.4 million respectively.

	December 31,	
	2023	2022
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities		
Operating lease cost (1) (2)	$ 485	$ 384
Finance lease cost	$ 95	$ —

(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 $0.3 million for leases with terms of 12 months or less and $0.2 million for leases with terms greater than 12 months for the year ended December 31, 2023. Includes costs of $0.2 million for leases with terms of 12 months or less and $0.2 million for leases with terms greater than 12 months for the year ended December 31, 2022.

The following table shows the future maturities of lease liabilities:

Year Ending December 31,	Lease Liabilities
	(in thousands)
2024	$ 437
2025	419
2026	328
2027	38
2028	38
Thereafter	16
Total lease payments	1,276
Less: Imputed interest	(15)
Total	$ 1,261

Rent expense under such leases was $0.2 million and $0.2 million for the years ended December 31, 2023 and 2022, respectively.

7. Intangibles

At December 31, 2023 and 2022, the Company had intangible assets, which relate to developed technology and a trade name. Amortization expense recognized in each of the years ending December 31, 2023 and 2022 was $0.1 million. Estimated amortization expense for 2024 is approximately $0.1 million. The Company has an intangible asset with a gross carrying value of $0.7 million at December 31, 2023, 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, 2023			December 31, 2022		
	Useful Life (years)	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
Developed Technology	20	$ 2,505	$ 2,384	$ 121	$ 2,505	$ 2,259	$ 246
Trade Name	Indefinite	654	—	654	654	—	654
Total		$ 3,159	$ 2,384	$ 775	$ 3,159	$ 2,259	$ 900

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 during the years ended December 31, 2023 or 2022.

8. Credit Facility

On May 11, 2021, we entered into a five-year senior secured revolving credit agreement ("Credit Agreement") with Texas Capital Bank, National Association (the "Lender") with an initial commitment of $20 million and an accordion feature that would increase the maximum commitment to $30 million, subject to collateral availability. On December 12, 2022, we entered into a First Amendment to the Credit Agreement (the "First Amendment") to increase the maximum commitment to $30 million. We also have a right to request from the Lender, on an uncommitted basis, an increase of up to $30 million on the aggregate commitment; provided, however, the aggregate commitment amount is not permitted to exceed $50 million. The maturity date of the Credit Agreement was May 11, 2026. The obligations under the Credit Agreement were secured by a first priority lien on a variety of our assets, including inventory and accounts receivable as well as a variable number of our leased compressor equipment. At December 31, 2022, we had $25.0 million outstanding under the Credit Agreement with a weighted average interest rate of 7.32%.

On February 28, 2023, we replaced our Credit Agreement by entering into a five-year senior secured revolving credit agreement (“Amended and Restated Credit Agreement”) with Texas Capital Bank, as administrative agent (the “Lender”), TCBI Securities, Inc., as joint lead arranger and sole book runner and Bank of America, N.A., as joint lead arranger, with an initial commitment of $175 million as of the closing date. Subject to collateral availability, we also have a right to request from the Lender, on an uncommitted basis, an increase of up to $125 million on the aggregate commitment; provided, however, the aggregate commitment amount is not permitted to exceed $300 million. The maturity date of the Amended and Restated Credit Agreement is February 28, 2028. In connection with the amendment we agreed to pay fees of $2.0 million (representing fees equal to 1.39% of the $145 million increase in the commitment) and reimburse the lenders for their expenses. The obligations under the Amended and Restated Credit Agreement are secured by a first priority lien on a variety of our assets, including inventory and accounts receivable as well as a variable number of our leased compressor equipment.

On November 14, 2023, the Company entered into a First Amendment to the Amended and Restated Credit Agreement (the "Amendment") with the Lender and certain other lenders to (i) increase the lender commitment from $175 million to $225 million, and (ii) to add First-Citizens Bank & Trust Company as a new lender to the facility. In connection with the Amendment, we agreed to pay fees of $0.6 million (representing fees equal to 1.125% of the $50 million increase in the commitment) and reimburse the lenders for their expenses. As of December 31, 2023, we were in compliance with all financial covenants in our credit agreement. At December 31, 2023, we had $164.0 million outstanding under our Amended and Restated Credit Agreement at a weighted average interest rate of 9.40%. At December 31, 2023, we had approximately $56.0 million of availability under the Amended and Restated Credit Agreement.

Borrowing Base. At any time before the maturity of the Amended and Restated 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) 85% of eligible accounts receivable owed to the Company, plus (b) 50% of the eligible inventory, valued at the lower of cost or market value at such time, subject to a cap of this component not to exceed $2.5 million, plus (c) the lesser of (i) 95% of the net book value of the compressors that the Lender has determined are eligible for the extension of credit, valued at the lower of cost or market value with depreciation not to exceed 25 years, at such time and (ii) 80% of the net liquidation value percentage of the net book value of the eligible compressors that the Lender has determined are eligible for the extension of credit, valued at the lower of cost or market value with depreciation not to exceed 25 years, at such time, plus (d) 80% of the net book value, valued at the lower of cost (excluding any costs for capitalized interest or other noncash capitalized costs) or market of the eligible new compressor fleet, minus (e) any required availability reserves determined by the Lender in its sole discretion. 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 and Restated Credit Agreement, we have the option of selecting the applicable variable rate for each revolving loan, or portion thereof, of either (a) the Base Rate (as defined below) plus the Applicable Margin, or (b) in the case of a Term SOFR (“Secured Overnight Financing Rate”) Loan, the Adjusted Term SOFR rate plus the Applicable Margin. "Base Rate" means, for any day, a rate of interest per annum equal to the highest of (a) the prime rate for such day; (b) the sum of the federal funds rate for such day plus 0.50%; and (c) the Adjusted Term SOFR for such day plus 1.00%. The Applicable Margin is determined based upon the leverage ratio as set forth in the most recent compliance certificate received by the Lender for each fiscal quarter from time to time pursuant to the Amended and Restated Credit Agreement. Depending on the leverage ratio, the Applicable Margin can be 2.00% to 2.75% for Base Rate Loans (as

defined in the Amended and Restated Credit Agreement) and 3% to 3.75% for Term SOFR Loans and for requested letters of credit. In addition, we are required to pay a monthly commitment fee on the daily average unused amount of the commitment while the Amended and Restated Credit Agreement is in effect at an annual rate equal to 0.50% of the unused commitment amount. Accrued interest is payable monthly on outstanding principal amounts and unused commitment fee, provided that accrued interest on Term SOFR Loans is payable at the end of each interest period, but in no event less frequently than quarterly.

Covenants. The Amended and Restated Credit Agreement contains customary representations and warranties, as well as covenants which, among other things, condition or 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 are subject to certain financial covenants in the Amended and Restated Credit Agreement that require us to maintain (i) a leverage ratio, as defined, lesser than or equal to 3.50 to 1.00 as of the last day of each fiscal quarter ending on or prior to December 31, 2024 and 3.25 to 1.00 for the fiscal quarter ending March 31, 2025 and for each fiscal quarter thereafter and (ii) a fixed charge coverage ratio greater than or equal to 1.25 to 1.00 as of the last day of each fiscal quarter.

Events of Default and Acceleration. The Amended and Restated 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 Amended and Restated Credit Agreement and the other 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 $1.0 million; certain bankruptcy or insolvency events; the rendering of certain judgments in excess of $1.0 million; certain ERISA events; certain change in control events and the defectiveness of any liens. Obligations outstanding under the Amended and Restated Credit Agreement may be accelerated upon the occurrence of an event of default.

9. Income Taxes

The provision for income taxes for the years ended December 31, 2023 and 2022, consists of the following (in thousands):

	2023	2022
Current expense		
State expense	$ (35)	$ (17)
Total current expense	(35)	(17)
Deferred (expense) benefit:		
Federal expense	(1,940)	(857)
State benefit	102	346
Total deferred expense	(1,838)	(511)
Total expense	$ (1,873)	$ (528)

The effective tax rate for the years ended December 31, 2023 and 2022, differs from the statutory rate as follows:

	2023	2022
Statutory rate	21.0 %	21.0 %
State and local taxes	(1.3)%	812.2 %
Stock based compensation	0.7 %	(58.5)%
Nondeductible compensation	8.2 %	(1,846.3)%
Other	(0.3)%	(217.1)%
Effective rate	28.3 %	(1,288.7)%

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the economic impact caused by the COVID-19 pandemic. The CARES Act, among other things, permits federal income tax net operating loss ("NOL") carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid federal income taxes. The Company generated significant NOLs

during 2018 and 2019 and filed carryback claims for these losses to the preceding five years. Accordingly, as of March 31, 2020, the Company recorded a federal income tax receivable of $15.0 million and an increase to its deferred tax liability of $10.1 million on its balance sheet. During the third quarter of 2020, the Company received refunds corresponding to the 2018 NOL carryback, leaving a balance in the federal income tax receivable of $11.5 million at December 31, 2023.

In conjunction with the $11.5 million income tax refund claim, on March 8, 2023, the Company received a notice from the Internal Revenue Service that its 2015, 2016, 2017 and 2019 income tax returns were selected for examination.

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and (liabilities) as of December 31, 2023 and 2022, are as follows (in thousands):

	2023	2022
Deferred income tax assets:		
Net operating loss	$ 22,190	$ 6,391
Research and development credits	1,313	1,338
Stock compensation	153	121
Interest expense	991	—
Inventory reserves	893	—
Deferred compensation	792	617
Other	285	354
Total deferred income tax assets	26,617	8,821
Deferred income tax liabilities:		
Property and equipment	(68,110)	(48,427)
Goodwill and other intangible assets	(143)	(192)
Total deferred income tax liabilities	(68,253)	(48,619)
Net deferred income tax liabilities	$ (41,636)	$ (39,798)

As of December 31, 2023, the Company had NOL carryforwards for federal income tax purposes of $96.0 million, which may be carried forward indefinitely and can offset up to 80% of future taxable income in any given year. Future changes in ownership, as defined by Section 382 of the Internal Revenue Code ("IRC"), could limit the amount of NOL carryforwards used in any one year. In general, under Section 382 and 383 of the IRC, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change NOLs and certain tax credits, to offset future taxable income and tax. In general, an ownership change occurs if the aggregate stock ownership of certain stockholders changes by more than 50 percentage points over such stockholders' lowest percentage of ownership during the testing period (generally three years).

We account for uncertain tax positions in accordance with guidance in FASB ASC 740, which prescribes the minimum recognition threshold a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. The Company assessed whether it had any uncertain tax positions related to open tax years and concluded there were none. Accordingly, no reserve for uncertain tax positions has been recorded as of December 31, 2023 and 2022.

Our policy regarding income tax interest and penalties is to expense those items as incurred. During the years ended December 31, 2023 and 2022, there were no significant income tax interest or penalty items in the statement of operations.

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 of 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 $3.0 million and $2.4 million as of December 31, 2023 and 2022, respectively, with a loss related to the policy of $(0.2) million

and $(0.4) million reported in other income in our consolidated statement of operations for the year ended December 31, 2023 and 2022, 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 $3.6 million and $2.8 million as of December 31, 2023 and 2022, respectively. The deferred obligation is included in other long-term liabilities in the consolidated balance sheets.

For deferrals of restricted stock units, the plan does not allow for diversification, therefore, distributions are paid in shares of our common stock and the obligation is carried at grant value. As of December 31, 2023 and 2022, respectively, we have none and 3,138 unvested restricted stock units being deferred. As of December 31, 2023 and 2022, respectively we have released and issued 191,700 and 188,562 shares to the deferred compensation plan with a value of $2.7 million and $2.6 million, respectively.

11. Stockholders' Equity

Preferred Stock

We have a total of 5.0 million authorized preferred shares which may be issued in series with rights and preferences as designated by the Board of Directors. As of December 31, 2023 and 2022, there were no issued or outstanding preferred shares.

12. Stock-Based and Other Long-Term Incentive Compensation

Restricted Stock

On June 20, 2019, at our annual meeting of shareholders, our shareholders approved the 2019 Equity Incentive Plan for restricted shares/units, stock options and other equity awards which reserved for issuance up to 500,000 shares of common stock in connection with awards. On June 16, 2022, at our annual meeting of shareholders, our shareholders approved an amendment to the Equity Incentive Plan to increase the number of shares available for issuance under the plan by 650,000 shares of common stock. As of December 31, 2023, we had outstanding awards of 133,898 shares under the Equity Incentive Plan that may vest over the next three years. As of December 31, 2023, 405,833 shares were still available for issuance under the Equity Incentive Plan.

On April 26, 2022, 4,212 shares of restricted common stock were awarded to each of our four independent Board members. The restricted stock issued to our directors vests in one year from the date of grant. On August 15, 2022, the Compensation Committee awarded 32,040 shares of restricted common stock to two executive officers that vest ratably over three years, beginning on April 25, 2023. In addition, on August 15, 2022, the Compensation Committee awarded 60,839 shares of restricted common stock to Mr. Stephen Taylor, our Interim Chief Executive Officer. The restricted shares granted to Mr. Taylor vested in full on June 30, 2023. On April 25, 2023, the Compensation Committee awarded 27,840 shares of restricted stock to our Chief Technical Officer that vest ratably over three years, beginning on April 25, 2024. Pursuant to the Retirement Agreement dated May 17, 2022, between the Company and Mr. Taylor, our Interim Chief Executive Officer, on April 25, 2023, the Compensation Committee awarded 58,790 fully vested shares of common stock to Mr. Taylor. On May 9, 2023, the Compensation Committee awarded each of our four independent Board members 9,470 restricted stock units. These restricted stock units vest one year from the date of grant. On June 30, 2023, Stephen C. Taylor was granted restricted stock units for 10,101 and 10,101 shares of common stock that will vest immediately and one year from the date of grant, respectively. On October 8, 2023, the Compensation Committee awarded 6,361 restricted stock units to Brian Tucker, our Chief Operating Officer. These units will vest ratably over three years beginning on October 9, 2024. On October 26, 2023, the compensation committee awarded 4,623 restricted stock units to an independent director. These units vest one year from the date of the grant.

Compensation expense related to the restricted shares was approximately $2.0 million and $1.7 million for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023, there was a total of approximately $0.7 million of unrecognized compensation expense related to the unvested portion of these restricted shares/units. This expense is expected to be recognized over the next three years.

A summary of all restricted stock/unit activity as of December 31, 2022 and 2023 and changes during the years then ended are presented below.

	Number of Shares	Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value *(in thousands)*
Outstanding, December 31, 2021	276,319	$ 9.67	1.77	$ 2,893
Granted	126,662	$ 10.21	—	$ 1,294
Vested	(152,134)	$ 10.99	—	$ 1,778
Outstanding, December 31, 2022	250,847	$ 9.14	1.42	$ 2,681
Granted	164,640	$ 10.65	—	$ 1,754
Vested	(267,232)	$ 9.22	—	$ 2,683
Canceled/Forfeited	(14,357)	$ 10.04	—	$ 158
Outstanding, December 31, 2023	133,898	$ 10.66	1.57	$ 1,813

Other Long-Term Incentive Compensation

On April 28, 2020, the Compensation Committee issued a long-term incentive award of $1.1 million to an executive officer that vests in equal, annual tranches over three years. At the time of vesting, each tranche was paid in cash. On March 18, 2021, the Compensation Committee issued a long-term incentive award of $1.0 million to an executive officer that vests in equal, annual tranches over three years. On March 18, 2021, we issued a $50,000 award to each of our three independent Board members. On April 1, 2021, we issued a $50,000 award to a newly appointed independent Board member. These awards vest one year from the date of grant and were paid in cash upon vesting. On April 26, 2022, we issued a $50,000 award to each of our four independent Board members. These awards vest one year from the date of grant and were paid in cash upon vesting. The Company accounts for these other long-term incentive awards as liabilities under accrued liabilities on our consolidated balance sheet. The vesting of these awards is subject to acceleration upon certain events, such as (i) death or disability of the recipient, (ii) certain circumstances in connection with a change of control of the Company, (iii) for executive officers, termination without cause (as defined in the agreement), and (iv) for executive officers, resignation for good reason (as defined). Total compensation expense related to these other long-term incentive awards was approximately $0.4 million and $1.0 million respectively for the years ended December 31, 2023 and 2022. As of December 31, 2023 and 2022 respectively there was a total of $0.0 million and $0.7 million of unrecognized compensation expense related to these other long-term incentive awards which is expected to be recognized over the next year.

1998 Stock Option Plan

Our 1998 Stock Option Plan as amended, which is stockholder approved, permits the granting of stock options to its employees for up to 1.0 million shares of common stock. 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 in equal increments over 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, 2023, 415,085 shares were still available to be granted under the Stock Option Plan.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of options granted is based on the vesting period and historical exercise and post-vesting employment termination behavior for similar grants. We use historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes.

Weighted average Black -Scholes fair value assumption during the year ended December 31, are as follows:	**2023**	**2022**
Risk free rate	3.99 %	2.99 %
Expected life	6.5	2.67
Expected volatility	47 %	54.5 %
Expected dividend yield	— %	— %

During the year ended December 31, 2023, and 2022, we made 6,000 and 215,000 stock option grants, respectively.

A summary of all option activity as of December 31, 2022 and 2023 and changes during the years then ended are presented below:

	Number of Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (years)**	**Aggregate Intrinsic Value**
				(in thousands)
Outstanding December 31, 2021	200,834	$ 21.17	4.83	$ —
Granted	215,000	$ 16.07	—	$ —
Canceled/Forfeited	(200,750)	$ (18.09)	—	$ —
Expired	(13,500)	$ 13.29	—	$ —
Outstanding, December 31, 2022	201,584	$ 19.32	3.90	$ —
Granted	6,000	$ 9.80	—	$ 1
Canceled/Forfeited	(39,833)	$ 16.33	—	$ 11
Expired	(38,000)	$ 16.28	—	$ —
Outstanding, December 31, 2023	129,751	$ 20.59	4.10	$ 274
Exercisable, December 31, 2023	105,416	$ 22.85	3.08	$ 146

The weighted average grant date fair value of options granted during 2023 and 2022 was $5.11 and $4.24 per option respectively. There were no option exercises in either 2023 or 2022.

The following table summarizes information about our stock options outstanding at December 31, 2023:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$0.01-$18.00	51,667	8.25	$ 10.77	27,332	$ 10.76
$22.01-$26.00	28,667	1.28	$ 22.90	28,667	$ 22.90
$26.01-$30.00	19,750	3.13	$ 28.15	19,750	$ 28.15
$30.01-$30.41	29,667	0.22	$ 30.41	29,667	$ 30.41
	129,751	4.10	$ 20.59	105,416	$ 22.85

The summary of the status of our unvested stock options as of December 31, 2023, and changes during the year then ended is presented below.

Unvested stock options:	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2022	39,000	$ 10.95
Granted	6,000	$ 9.80
Vested	(14,998)	$ 10.90
Canceled/Forfeited	(5,667)	$ 10.58
Unvested at December 31, 2023	24,335	$ 10.79

We recognized stock compensation expense from stock options of $0.1 million and $0.3 million for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023, there was $0.1 million of unamortized compensation cost related to unvested stock options.

13. Earnings (loss) per Share

Basic earnings (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) 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 per share (in thousands, except per share amounts):

	Year Ended December 31,	
	2023	2022
Numerator:		
Net income (loss)	$ 4,747	$ (569)
Denominator for basic net earnings (loss) per common share:		
Weighted average common shares outstanding	12,316	12,305
Denominator for diluted net income (loss) per share:		
Weighted average common shares outstanding	12,316	12,305
Dilutive effect of stock options and restricted shares	67	—
Diluted weighted average shares	12,383	12,305
Earnings (loss) per common share:		
Basic	$ 0.39	$ (0.05)
Diluted	$ 0.38	$ (0.05)

In the year ended December 31, 2022, 250,847 restricted stock/units and 201,584 stock options were not included in the computation of diluted loss per share due to their antidilutive effect. In the year ended December 31, 2023, 10,984 restricted stock/units and 129,751 stock options were not included in the computation of diluted earnings per share due to their antidilutive effect.

14. Accrued Liabilities

Accrued liabilities consisted of the following as of December 31, 2023 and 2022 (in thousands):

	2023	2022
Accrued purchases	$ 8,629	$ 17,763
Accrued compensation	2,137	4,472
Accrued other	4,319	1,683
Total	$ 15,085	$ 23,918

15. Commitments and Contingencies

Legal Proceedings

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

16. Related Party

During the year ended December 31, 2023, we sold $0.9 million of compressor components to N-G Joint Venture, LLC our 14% joint venture. As of December 31, 2023, we had accounts receivable of $0.2 million with N-G.

During the year ended December 31, 2023, we paid $0.3 million to Mill Road Capital, a large shareholder, for expense reimbursements related to our cooperation agreement.

17. Subsequent Events

On February 1, 2024, the Company announced that it had appointed Justin Jacobs as Chief Executive Officer, effective February 12, 2024. Mr. Jacobs is a member of our board of directors.

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EXECUTIVE OFFICERS
&
DIRECTORS

JUSTIN C. JACOBS
Chief Executive Officer and Director

BRIAN L. TUCKER
President and Chief Operating Officer

JAMES R. HAZLETT
Vice President and Chief Technical Officer

JOHN BITTNER
Interim Chief Financial Officer

STEPHEN C. TAYLOR
Chairman of the Board
Former CEO Natural Gas Services Group

DONALD J. TRINGALI
Director

DAVID L. BRADSHAW
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ABOUT NATURAL GAS SERVICES GROUP, INC:

NGS is a leading provider of gas compression equipment, technology, and services to the energy industry. The Company manufactures, fabricates, rents, sells, and maintains natural gas compressors for oil and natural gas production and plant facilities. NGS is headquartered in Midland, Texas, with a fabrication facility in Tulsa, Oklahoma, a rebuild shop in Midland, Texas, and service facilities located in major oil and natural gas producing basins in the U.S. Additional information can be found at www.ngsgi.com.