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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended **June 30, 2021**

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 Ln., Ste 300
Midland, Texas 79705
(Address of principal executive offices)
(432) 262-2700
(Registrant’s telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, Par Value $0.01	NGS	New York Stock Exchange

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 x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 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 x No o

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 the definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o 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.o

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

Yes ☐ No x

As of August 9, 2021, there were 13,344,888 shares of the Registrant's common stock, $0.01 par value, outstanding.

Part I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Part II - OTHER INFORMATION

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

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

	June 30, 2021	December 31, 2020
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 26,173	$ 28,925
Trade accounts receivable, net of allowance for doubtful accounts of $1,203 and $1,161, respectively	12,229	11,884
Inventory	21,348	19,926
Federal income tax receivable	11,538	11,538
Prepaid income taxes	39	66
Prepaid expenses and other	775	379
Total current assets	72,102	72,718
Long-term inventory, net of allowance for obsolescence of $37 and $221, respectively	1,171	1,065
Rental equipment, net of accumulated depreciation of $187,087 and $175,802, respectively	208,176	207,585
Property and equipment, net of accumulated depreciation of $15,103 and $13,916, respectively	21,180	21,749
Right of use assets - operating leases, net of accumulated amortization of $465 and $356, respectively	375	483
Intangibles, net of accumulated amortization of $2,071 and $2,008, respectively	1,088	1,151
Other assets	2,507	2,050
Total assets	$ 306,599	$ 306,801
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 2,425	$ 2,373
Accrued liabilities	10,998	6,770
Line of credit	—	417
Current operating leases	131	198
Deferred income	693	1,103
Total current liabilities	14,247	10,861
Deferred income tax liability	41,666	41,890
Long-term operating leases	244	285
Other long-term liabilities	2,541	2,221
Total liabilities	58,698	55,257
Commitments and contingencies (Notes 6 and 9)		
Stockholders' Equity:		
Preferred stock, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, 30,000 shares authorized, par value $0.01; 13,394 and 13,296 shares issued, respectively	134	133
Additional paid-in capital	113,175	112,615
Retained earnings	136,974	139,286
Treasury Shares, at cost, 213 and 38 shares, respectively	(2,382)	(490)
Total stockholders' equity	247,901	251,544
Total liabilities and stockholders' equity	$ 306,599	$ 306,801

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenue:				
Rental income	$ 15,613	$ 15,131	$ 30,954	$ 31,231
Sales	1,573	2,008	4,284	3,458
Service and maintenance income	563	266	908	606
Total revenue	17,749	17,405	36,146	35,295
Operating costs and expenses:				
Cost of rentals, exclusive of depreciation stated separately below	9,082	6,629	16,239	14,526
Cost of sales, exclusive of depreciation stated separately below	1,777	1,860	4,392	3,599
Cost of service and maintenance, exclusive of depreciation stated separately below	250	100	298	225
Selling, general and administrative expenses	2,607	2,663	5,255	4,825
Depreciation and amortization	6,326	6,301	12,623	12,541
Total operating costs and expenses	20,042	17,553	38,807	35,716
Operating loss	(2,293)	(148)	(2,661)	(421)
Other income (expense):				
Interest expense	(14)	(8)	(16)	(11)
Other income (expense), net	50	378	151	193
Total other income (expense), net	36	370	135	182
Loss before provision for income taxes	(2,257)	222	(2,526)	(239)
Income tax (expense) benefit	339	(57)	213	4,486
Net (loss) income	$ (1,918)	$ 165	$ (2,313)	$ 4,247
(Loss) earnings per share:				
Basic	$ (0.14)	$ 0.01	$ (0.17)	$ 0.32
Diluted	$ (0.14)	$ 0.01	$ (0.17)	$ 0.32
Weighted average shares outstanding:				
Basic	13,305	13,237	13,284	13,197
Diluted	13,305	13,480	13,284	13,448

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	Shares	Amount			Shares	Amount	
BALANCES, January 1, 2020	—	$ —	13,178	$ 132	$ 110,573	$ 137,478	38	$ (490)	$ 247,693
Compensation expense on common stock options	—	—	—	—	17	—	—	—	17
Issuance of restricted stock	—	—	95	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	1	485	—	—	—	486
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(149)	—	—	—	(149)
Net income	—	—	—	—	—	4,082	—	—	4,082
BALANCES, March 31, 2020	—	—	13,273	133	110,926	141,560	38	(490)	252,129
Compensation expense on common stock options	—	—	—	—	1	—	—	—	1
Issuance of restricted stock	—	—	13	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	—	562	—	—	—	562
Net income	—	—	—	—	—	165	—	—	165
BALANCES, June 30, 2020	—	$ —	13,286	$ 133	$ 111,489	$ 141,725	38	$ (490)	$ 252,857

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

	Preferred Stock		Common Stock				Treasury Stock		
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Shares	Amount	Total Stockholders' Equity
BALANCES, January 1, 2021	—	$ —	13,296	$ 133	$ 112,615	$ 139,286	38	$ (490)	$ 251,544
Issuance of restricted stock	—	—	62	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	1	473	—	—	—	474
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(224)	—	—	—	(224)
Net loss	—	—	—	—	—	(394)	—	—	(394)
BALANCES, March 31, 2021	—	—	13,358	134	112,864	138,892	38	(490)	251,400
Issuance of restricted stock	—	—	36	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	—	421	—	—	—	421
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(110)	—	—	—	(110)
Purchase of treasury shares	—	—	—	—	—	—	175	(1,892)	(1,892)
Net loss	—	—	—	—	—	(1,918)	—	—	(1,918)
BALANCES, June 30, 2021	—	$ —	13,394	$ 134	$ 113,175	$ 136,974	213	$ (2,382)	$ 247,901

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Six months ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (2,313)	$ 4,247
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	12,623	12,541
Amortization of debt issuance costs	7	—
Deferred income taxes	(224)	399
Stock-based compensation	896	1,066
Bad debt allowance	65	63
Gain on sale of assets	—	(273)
Loss (gain) on company owned life insurance	(188)	92
Changes in operating assets and liabilities:		
Trade accounts receivables	(410)	(2,631)
Inventory	(1,543)	5,262
Federal income tax receivable	—	(14,992)
Prepaid expenses and prepaid income taxes	(369)	(95)
Accounts payable and accrued liabilities	4,281	(536)
Deferred income	(410)	(515)
Deferred tax liability increase due to tax law change	—	10,103
Other	337	71
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,752	14,802
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of rental equipment, property and other equipment	(12,567)	(10,989)
Purchase of company owned life insurance	(55)	(196)
Proceeds from sale of property and equipment	—	383
Proceeds from sale of deferred compensation mutual fund	—	10
NET CASH USED IN INVESTING ACTIVITIES	(12,622)	(10,792)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan	—	4,601
Repayment of loan	—	(4,601)
Payments of other long-term liabilities, net	(1)	(2)
Payments of debt issuance costs	(237)	—
Repayments of line of credit, net	(417)	—
Purchase of treasury shares	(1,892)	—
Taxes paid related to net share settlement of equity awards	(335)	(149)
NET CASH USED IN FINANCING ACTIVITIES	(2,882)	(151)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,752)	3,859
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	28,925	11,592
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 26,173	$ 15,451
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 9	$ 11
Income taxes paid	$ —	$ 63
NON-CASH TRANSACTIONS		
Right of use asset acquired through an operating lease	$ —	$ 5

See accompanying notes to these unaudited condensed consolidated financial statements.

Natural Gas Services Group, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Description of Business

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

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying unaudited condensed 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. All significant intercompany accounts and transactions for the periods presented have been eliminated in consolidation.

These financial statements include all adjustments, consisting of only normal recurring adjustments, which are necessary to make our financial position at June 30, 2021 and the results of our operations for the three and six months ended June 30, 2021 and 2020 not misleading. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC), the accompanying condensed consolidated financial statements do not include all disclosures normally required by generally accepted accounting principles in the United States of America (GAAP). These financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020 on file with the SEC. In our opinion, the condensed consolidated financial statements are a fair presentation of the financial position, results of operations, changes in stockholders' equity and cash flows for the periods presented.

The results of operations for the three and six months ended June 30, 2021 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2021.

Revenue Recognition Policy

The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers ("ASC 606"). Under ASC 606, 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 condensed 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 period. Our rental contracts typically range from six to 24 months, with our larger horsepower compressors having contract terms of up to 60 months. Our revenue is recognized over time, with equal monthly payments over the term of the contract. After the terms of the contract have expired, a customer may renew their contract or continue renting on a monthly basis thereafter. In accordance ASC 842, we have applied the practical expedient ASC 842-10-15-42A, which allows the Company to combine lease and non-lease components.

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

Custom/fabricated compressors and flare systems - The Company designs and fabricates compressors and flares based on the customer's specifications outlined in their contract. Though the equipment being built is customized by the customer, control under these contracts does not pass to the customer until the compressor or flare package is complete and shipped, or in accordance with a bill and hold arrangement, 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 condensed consolidated balance sheet until control has been transferred. These contracts also may include an assurance warranty clause to guarantee the product is free from defects in material and workmanship for a set duration of time; this is a standard industry practice and is not considered a performance obligation.

From time to time we recognize revenue when manufacturing is complete and the equipment is ready for shipment. At the customer's request, we will bill the customer upon completing all performance obligations, but before shipment. The customer will formally request that we ship the equipment per their direction from our manufacturing facility at a later specified date and that we segregate the equipment from our finished goods, such that they are not available to fill other orders. Per the customer's agreement change of control is passed to the customer once the equipment is complete and ready for shipment. We have operated using bill and hold agreements with certain customers for many years, with consistent and satisfactory results for both the customer and us. The credit terms on these agreements are consistent with the credit terms on all other sales. All control is maintained by the customer and there are no exceptions to the customer's commitment to accept and pay for the manufactured equipment. There was no revenue recognized for bill and hold arrangements for the three months ended June 30, 2021. Revenue recognized related to bill and hold arrangements for the six months ended June 30, 2020 was approximately $852,000.

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

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

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

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

Payment terms for sales revenue and service and maintenance revenue discussed above are generally 30 to 60 days, although terms for specific customers can vary. Also, 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 three and six months ended June 30, 2021 and 2020:

	Three months ended June 30,		**Six months ended June 30,**	
	2021	**2020**	**2021**	**2020**
	(in thousands)		*(in thousands)*	
Compressors - sales	$ —	$ 1,360	$ 1,891	$ 2,212
Flares - sales	29	160	75	240
Other (parts/rebuilds) - sales	1,544	488	2,318	1,006
Service and maintenance	563	266	908	606
Total revenue from contracts with customers	2,136	2,274	5,192	4,064
Add: ASC 842 rental revenue	15,613	15,131	30,954	31,231
Total revenue	$ 17,749	$ 17,405	$ 36,146	$ 35,295

Contract Balances

As of June 30, 2021 and December 31, 2020, we had the following receivables and deferred income from contracts with customers:

		June 30, 2021		December 31, 2
		(in thousands)		
Accounts Receivable				
Accounts receivable - contracts with customers	$	3,778	$	
Accounts receivable - ASC 842		9,654		
Total Accounts Receivable	$	13,432	$	
Less: Allowance for doubtful accounts		(1,203)		
Total Accounts Receivable, net	$	12,229	$	
Deferred income	$	693	$	

The Company recognized sales and rental revenues of $1.1 million and $2,000, respectively, for the six months ended June 30, 2021 that was included in deferred income at the beginning of 2021. For the year ended December 31, 2020, the Company recognized sales and rental revenues of $533,000 and $73,000, respectively, that was included in deferred income at the beginning of 2020.

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

Remaining Performance Obligations

As of June 30, 2021, the Company did not have revenue related to unsatisfied performance obligations.

Contract Costs

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

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and operating losses and tax credit carryforwards. 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. 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. To the extent we establish a valuation allowance or increase this allowance in a period, we include an expense in the tax provision in our condensed consolidated statements of operations.

We account for uncertain tax positions in accordance with guidance in 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 condensed consolidated financial statements. Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely to be realized upon settlement. A liability for unrecognized tax benefits is recorded for any tax benefits claimed in our tax returns that do not meet these recognition and measurement standards. We have no liabilities for uncertain tax positions as of June 30, 2021.

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

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. Please see Note 4, Federal Income Tax Receivable for a discussion about the impact on our condensed consolidated financial statements.

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. We are currently evaluating the impact of ASU 2016-13 on our consolidated financial statements and note disclosures.

3. Inventory

Our inventory, net of allowance for obsolescence of $37,000 at June 30, 2021 and $221,000 at December 31, 2020, consisted of the following amounts:

	June 30, 2021	December 31, 2
	(in thousands)	
Raw materials - current	$ 20,343	$ 1
Work-in-process	1,005	
Inventory - current	21,348	1
Raw materials - long term (net of allowances of $37 and $221, respectively)	1,171	
Inventory - total	$ 22,519	$ 2

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

Inventory Allowance

Due to the slow moving nature or obsolescence of a portion of its long-term inventory and inventory related to the periodic retirement of rental equipment, the Company routinely reviews its inventory allowance balance for costs that may not be recoverable in the future.

A summary of our inventory allowance is as follows:

	June 30, 2021	December 31, 2020
	(in thousands)	
Beginning balance	$ (221)	$ (24)
Accruals	—	(251)
Write-offs	184	54
Ending balance	$ (37)	$ (221)

4. Federal Income Tax Receivable

As discussed in Note 2, 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 has filed amended returns to carryback these losses for five years. Accordingly, during 2020, the Company recorded a federal income tax receivable of $15.0 million and an increase to its deferred income tax liability of $10.1 million on its condensed consolidated balance sheet. During the third quarter of 2020, the Company received refunds totaling $3.9 million related to its 2018 NOLs, which reduced its federal income tax receivable to $11.5 million on its condensed consolidated balance sheet as of June 30, 2021.

5. Rental Equipment

Our rental equipment and associated accumulated depreciation as of June 30, 2021 and December 31, 2020, respectively, consisted of the following:

	June 30, 2021	December 31, 2020
	(in thousands)	
Compressor units	$ 390,930	$ 379,623
Work-in-process	4,333	3,764
Rental equipment	395,263	383,387
Accumulated depreciation	(187,087)	(175,802)
Rental equipment, net of accumulated depreciation	$ 208,176	$ 207,585

We evaluated our rental equipment for potential impairment as of June 30, 2021, and determined that no such impairment existed as of that date.

6. Credit Facility

Previous Credit Agreement

We had a senior secured revolving credit agreement the ("Previous Credit Agreement") with JP Morgan Chase Bank, N.A (the "Lender") that matured on March 31, 2021. Prior to maturation, the outstanding balance of $417,000 was repaid. The Previous Credit Agreement had an aggregate commitment of $30 million, subject to collateral availability.

New Credit Agreement

On May 11, 2021, we entered into a five year senior secured revolving credit agreement ("New 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 New Credit Agreement is May 11, 2026. The obligations under the New 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.

Borrowing Base. At any time before the maturity of the New 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) 90% of eligible accounts receivable owed to the Company by investment grade debtors, *plus* (b) 85% of the eligible accounts receivable owing by non-investment grade debtors, *plus* (c) 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 $2.0 million, *plus* (d) 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* (e) 80% of the value at cost (excluding any costs for capitalized interest or other non-cash capitalized costs) of the eligible new compressor fleet, *minus* (f) 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. As of June 30, 2021, our allowable borrowing base was $20.0 million.

Interest and Fees. Under the terms of the New 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 Eurodollar Rate Loan, the Adjusted Eurodollar 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 Eurodollar Rate 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 New Credit Agreement. Depending on the leverage ratio, the Applicable Margin can be 0.25% to 0.75% for Base Rate Loans (as defined in the New Credit Agreement) and 1.25% to 1.75% for Eurodollar Rate Loans and for requested letters of credit. Accrued interest is payable monthly on outstanding principal amounts, provided that accrued interest on Eurodollar Rate Loans is payable at the end of each interest period, but in no event less frequently than quarterly.

Covenants. The New 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 also have certain financial covenants that are applicable during certain trigger periods specified in the Credit Agreement and require us during such trigger periods to maintain a leverage ratio less than or equal to 3.00 to 1.00 as of the last day of each fiscal quarter and a fixed charge coverage ratio greater than or equal to 1.00 to 1.00 as of the last day of each fiscal quarter.

Events of Default and Acceleration. The New 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 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 under the secured revolving credit agreement. Obligations outstanding under the Credit Agreement may be accelerated upon the occurrence of an event of default.

As of June 30, 2021, we were in compliance with all financial covenants in our New Credit Agreement. A default under our New Credit Agreement could trigger the acceleration of our debt such that it is immediately due and payable. Such default would likely limit our ability to access other credit. At June 30, 2021, we had no amounts outstanding under the New Credit Agreement.

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

Stock Options

A summary of all option activity as of December 31, 2020, and changes during the six months ended June 30, 2021 is presented below.

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value *(in thousands)*
Outstanding, December 31, 2020	161,334	$ 24.48	3.48	$ —
Granted	—	—	—	—
Cancelled / Forfeited	—	—	—	—
Expired	(16,000)	17.81	—	—
Outstanding, June 30, 2021	145,334	$ 25.21	3.37	$ —
Exercisable, June 30, 2021	145,334	$ 25.21	3.37	$ —

The following table summarizes information about our stock options outstanding at June 30, 2021:

	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	8,500	0.57	$ 14.89	8,500	$ 14.89
$18.01-22.00	20,500	1.72	18.75	20,500	18.75
$22.01-26.00	42,167	3.79	22.90	42,167	22.90
$26.01-30.00	30,000	5.63	28.15	30,000	28.15
$30.01-34.00	44,167	2.72	30.41	44,167	30.41
	145,334	3.37	$ 25.21	145,334	$ 25.21

As of June 30, 2021 and December 31, 2020, there were no unvested stock options.

As of June 30, 2021, there was no unrecognized compensation cost related to unvested options. For the six months ended June 30, 2020, total compensation expense for stock options was $18,000. For the six months ended June 30, 2021 there was no compensation expense for stock options.

Restricted Shares/Units

In accordance with the Company's employment agreement with Stephen Taylor, the Company's Chief Executive Officer, the Compensation Committee of the Company's Board of Directors reviewed his performance in determining the issuance of restricted common stock. Based on this review, which included consideration of the Company's 2020 performance, Mr. Taylor was awarded 109,212 restricted shares/units on March 18, 2021, which vest over three years, in equal annual installments, beginning March 18, 2022. On March 18, 2021, the Compensation Committee awarded 20,000 restricted shares to our Vice President of Technical Services, James Hazlett. The restricted shares to Mr. Hazlett vest over three years, in equal annual installments, beginning March 18, 2022. On June 17, 2021, the Compensation Committee awarded 5,000 restricted shares to our Vice President and Chief Financial Officer, Micah C. Foster. The restricted shares granted to Mr. Foster vest over 3 years, in equal annual installments, beginning on June 17, 2021. On March 18, 2021, we also awarded and issued 5,612 shares of restricted common stock to each of our three independent members of our Board of Directors as partial payment for their services in 2021. On April 1, 2021, we awarded and issued 5,291 shares of restricted common stock to a newly appointed member of our Board of Directors as partial payment for his services in 2021. These awards of restricted stock vest one year from the date of grant. Total compensation expense related to these and previously granted restricted stock awards was $896,000 and $485,000 for the six months ended June 30, 2021 and 2020, respectively. As of June 30, 2021, there was a total of $2.2 million of unrecognized compensation expense related to these shares/units which is expected to be recognized over the next 1.9 years.

A summary of all restricted stock/units outstanding as of December 31, 2020 and activity during the six months ended June 30, 2021 is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value *(in thousands)*
Outstanding, December 31, 2020	258,101	$ 12.87	1.61	$ 2,447
Granted	156,339	8.93	—	1,406
Vested	(134,788)	14.94	—	1,258
Canceled/Forfeited	(3,333)	12.26	—	31
Outstanding, June 30, 2021	276,319	$ 9.63	2.27	$ 2,841

Other Long-Term Incentive Compensation

On April 28, 2020, based on its review of Mr. Taylor's 2019 performance, the Compensation Committee issued a long-term incentive award of $1.1 million to Mr. Taylor that vests in equal, annual tranches over 3 years beginning on the anniversary of the grant date. At the time of vesting, each tranche was or will be payable in cash or common stock at the discretion of the Compensation Committee. On March 18, 2021, based on its review of Mr. Taylor's 2020 performance, the Compensation Committee issued a long-term incentive award of $973,080 to Mr. Taylor that vests in equal, annual tranches over 3 years beginning on the anniversary of the grant date. In addition, on April 28, 2020, we issued a $50,000 award to three of our independent members of our Board of Directors as partial payment for their services in 2020. These awards vest one year from the date of grant and are payable in cash upon vesting. On March 18, 2021, we issued a $50,000 award to three of our independent members of our Board of Directors as partial payment for their services in 2021. On April 1, 2021, we issued a $50,000 award to a newly appointed independent member of our Board of Directors as partial payment for his services in 2021. These awards vest one year from the date of grant and are payable in cash upon vesting. The Company accounts for these other long-term incentive awards to Mr. Taylor and our independent Board members as liabilities under accrued liabilities on our condensed consolidated balance sheet. The vesting of these awards 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 $381,000 for the six months ended June 30, 2021. As of June 30, 2021, there was a total of $1.6 million of unrecognized compensation expense related to these other long-term incentive awards which is expected to be recognized over the next 2.1 years.

8. (Loss) Earnings per Share

The following table reconciles the numerators and denominators of the basic and diluted (loss) earnings per share computation:

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	2021	2020
	(in thousands, except per share data)			
Numerator:				
Net (loss) income	$ (1,918)	$ 165	$ (2,313)	$ 4,247
Denominator for (loss) earnings per basic common share:				
Weighted average common shares outstanding	13,305	13,237	13,284	13,197
Denominator for (loss) earnings per diluted common share:				
Weighted average common shares outstanding	13,305	13,237	13,284	13,197
Dilutive effect of stock options and restricted stock/units	—	243	—	251
Diluted weighted average shares	13,305	13,480	13,284	13,448
(Loss) earnings per common share:				
Basic	$ (0.14)	$ 0.01	$ (0.17)	$ 0.32
Diluted	$ (0.14)	$ 0.01	$ (0.17)	$ 0.32

For the three and six months ended June 30, 2021, 276,319 restricted stock/units and 145,334 stock options were not included in the computation of diluted loss per share due to their antidilutive effect.

For the three months ended June 30, 2020, 168,334 stock options were not included in the computation of diluted earnings per share due to their antidilutive effect.

For the six months ended June 30, 2020, 175,587 stock options were not included in the computation of diluted earnings per share due to their antidilutive effect.

9. Commitments and Contingencies

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 adverse effect on our financial position, results of operations or cash flow. We are not currently a party to any material legal proceedings, and we are not aware of any threatened material litigation.

Stock Repurchase Program

On August 12, 2019, the Company announced the Board of Directors had authorized the repurchase of up to $10.0 million of its outstanding shares of common stock in the open market, block trades or privately negotiated transactions. The timing and extent of any repurchase is subject to the discretion of management and is dependent upon market pricing and conditions, business, legal, accounting and other considerations. The repurchase program does not obligate the Company to purchase any shares and was set to expire on September 30, 2020, subject to earlier termination of the program by the Board of Directors. On October 23, 2020, the Board of Directors authorized the extension of the repurchase program through September 30, 2021. The repurchase program may be modified, suspended or terminated at any time without notice, in the Company’s discretion, based upon a number of factors, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, the need for capital in the Company’s operations and other factors deemed appropriate. The Company intends to finance the repurchases with existing liquidity and free cash flow. For the six months ended June 30, 2021, the Company repurchased 175,007 of its outstanding shares of common stock with a value of $1.9 million, at an average price of $10.81. As of June 30, 2021, the Company has repurchased 212,943 of its outstanding shares of common stock with a value of $2.4 million, at an average price of $11.19. As of June 30, 2021, the Company had approximately $7.6 million remaining under the repurchase authorization. For further information, see *Part II Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds.*

10. Subsequent Events

None

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis of our financial condition and results of operations are based on, and should be read in conjunction with, our condensed consolidated financial statements and the related notes included elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC.

This report and our Annual Report on Form 10-K contain 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 report as well as our 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.

Please read Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2020, as it contains important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements.

Overview

We fabricate, manufacture, rent, and sell natural gas compressors and related equipment. Our primary focus is on the rental of natural gas compressors. Our rental contracts typically provide for initial terms of six to 24 months, with our larger horsepower units having contract terms of up to 60 months. After the initial term of our rental contracts, many 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 our rented compressors. As of June 30, 2021, we had 1,245 natural gas compressors totaling 287,365 horsepower rented to 79 customers compared to 1,273 natural gas compressors totaling 284,373 horsepower rented to 84 customers at June 30, 2020.

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. The major components of our compressors packages are acquired through periodic purchase orders placed with third-party suppliers on an "as needed" basis, which presently require lead times between two to three months with delivery dates scheduled to coincide with our estimated production schedules. Although we do not have formal continuing supply contracts with any major supplier, we believe we have adequate alternative sources available. In the past, we have not experienced any sudden and dramatic increases in the prices of the major components for our compressors; however, the occurrence of such an event could have a material adverse effect on the results of our operations and financial condition, particularly if we were unable to increase our rental rates and sales prices proportionate to any such component price increases.

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

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

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

In general, we expect our overall business activity and revenues to track the level of activity in the oil and natural gas industry, with changes in crude oil and condensate production and consumption levels and prices affecting our business more than changes in domestic natural gas production and consumption levels and prices. In recent years we have increased our rentals 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 unconventional production. These types of applications have historically been serviced by wellhead size compressors, and continue to be, but there has also been an economic move by our customers towards centralized drilling and production facilities, which have increased the market need for larger horsepower compressor packages. We recognized this need in recent years and have been shifting our cash and fabrication resources towards designing, fabricating and renting gas compressor packages that range from 400 horsepower up to 1,380 horsepower. While this is a response to market conditions and trends, it also provides us with the opportunity to compete as a full-line compression provider.

Industry Update

We typically experience a decline in demand during periods of low crude oil and natural gas prices. During the first quarter of 2020, we saw a substantial decline in the prices for oil and natural gas. While commodity prices have stabilized during late 2020 and through the first six months of 2021, activity levels of exploration and production companies have been and will be dependent not only on commodity prices, but also on their ability to generate sufficient operational cash flow to fund their activities. Generally, though, we feel that production activities (in which we are involved) will fare better than drilling activity. This is reflected in both the stability of our rental revenues, which is driven by production activities, and the volatility of our compressor sales, which tends to fluctuate with drilling activity.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus known as COVID-19 due to the risks it imposes on the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The effects of the COVID-19 outbreak, including actions taken by businesses and governments to contain the spread of the virus, resulted in a significant, rapid decline in global and U.S. economic conditions. This significant drop in economic activity caused global demand for crude oil to drastically decline.

Given the current economic and industry backdrop, we still expect compressor sales to be low for the remainder of 2021, as exploration and production companies have significantly reduced their capital expenditures budgets.

In regards to our costs, we implemented various cost cutting measures with respect to operating expenses and capital expenditures during the second quarter of 2020. Our operating expense reductions included reductions in our headcount from both layoffs and attrition, wage freezes, centralization of certain processes for better cost control, and the enlistment of our suppliers in our cost cutting efforts. These cost cutting measures helped our financial performance and liquidity during 2020, and we expect these cost cutting measures to continue to benefit our financial performance through the remainder of 2021. In addition, as we have done during prior downturns, we significantly reduced our capital expenditures budget.

Finally, in keeping with current commercial precautions and practices in our industry, we have implemented guidelines to mitigate health risks to our employees and customers during this outbreak. To date, our field operations have continued largely uninterrupted as the U.S. Department of Homeland Security designated our industry as part of our country’s critical infrastructure. Remote work and work process adjustments related to COVID-19 have not impacted our ability to maintain our service operations or caused us to incur significant additional costs. In addition, we have not experienced any supply chain issues in connection with the COVID-19 outbreak.

Results of Operations

Three months ended June 30, 2021, compared to the three months ended June 30, 2020.

The table below shows our revenues and percentage of total revenues of each of our product lines for the three months ended June 30, 2021 and 2020.

	Three months ended June 30,			
	2021		2020	
	(in thousands)			
Rental	$ 15,613	88.0 %	$ 15,131	86.9 %
Sales	1,573	8.9 %	2,008	11.6 %
Service and Maintenance	563	3.1 %	266	1.5 %
Total	$ 17,749		$ 17,405	

Total revenue increased 2.0% to $17.7 million for the three months ended June 30, 2021 compared to $17.4 million for the three months ended June 30, 2020. This increase was primarily a result of higher rental revenue (3.2% increase) during 2021 offset by lower sales revenue (22% decrease).

Rental revenue increased to $15.6 million for the three months ended June 30, 2021 compared to $15.1 million for the same period in 2020. This increase during the second quarter of 2021 was attributable to higher horse power compression rentals as these units carry a higher revenue rate than our lower horse power units.

As of June 30, 2021, we had 2,257 compressor packages in our fleet, down from 2,335 units at June 30, 2020 due to the retirement of 122 units during the fourth quarter of 2020. The Company's total unit horsepower remained flat at 446,803 horsepower at June 30, 2021 compared to 446,805 horsepower at June 30, 2020, which reflects the addition to the Company's fleet of 16 high horsepower compressors with 7,780 horsepower over the past 12 months. As of June 30, 2021, we had 1,245 natural gas compressors with a total of 287,365 horsepower rented to 79 customers, compared to 1,273 natural gas compressors with a total of 284,373 horsepower rented to 84 customers as of June 30, 2020. As a result, our total rented horsepower as of June 30, 2021 increased by 1.1% over the last twelve months. Our rental fleet had unit utilization as of June 30, 2021, and 2020, respectively, of 55.2% and 54.5%, and our horsepower utilization for the same periods, respectively, was 64.3% and 63.6%. While our total rented units declined during the period, our total rented horsepower increased by 1.1% contrasted against an 2.2% decline in total rented units. This illustrates the growing demand for our high horsepower units while the demand for our smaller and medium horsepower units has decreased with recent lower commodity prices.

Sales revenue decreased to $1.6 million for the three months ended June 30, 2021 compared to $2.0 million for the three months ended June 30, 2020. This decrease is mostly attributable to decreased compressor sales partially offset by increased parts sales during the second quarter of 2021 compared to the same period in 2020. Sales are subject to fluctuations in timing of industry activity related to our customers' capital projects and, as such, can vary substantially between periods.

Cost of rentals increased to $9.1 million during the three months ended June 30, 2021 compared to $6.6 million during the three months ended June 30, 2020. While rental revenues increased 3.2%, this 37.0% increase in costs of rentals is primarily due to labor and parts expenses related to a significant increase in repair and maintenance work on our rental fleet as well as increased costs related to newly set units which experience higher upfront costs than typical run rates. While repair and maintenance expenses are customary in our business, the timing of such expenses can fluctuate between periods resulting in periods with larger than normal expenses.

Cost of sales decreased 4.5% to $1.8 million during the three months ended June 30, 2021 compared to $1.9 million during the three months ended June 30, 2020. This decrease was primarily due to lower compressor sales partially offset by higher parts sales during the period.

Selling, general, and administrative ("SG&A") expenses decreased 2.1% to $2.6 million for the three months ended June 30, 2021 compared $2.7 million during the same period in 2020. This decrease in SG&A expenses was primarily attributable to a decrease in restricted stock compensation expense partially offset by increased health insurance expenses.

Depreciation and amortization expense was unchanged at $6.3 million for the three months ended June 30, 2021 compared to $6.3 million for the three months ended June 30, 2020. This was the result of larger horsepower units being added to the fleet partially offset by unit retirements in the fourth quarter of 2020.

We recorded an income tax benefit of approximately $339,000 for the three months ended June 30, 2021 compared to an income tax (expense) of $(57,000) for the three months ended June 30, 2020. For interim periods, our income tax benefit (expense) is computed based upon our estimated annual effective tax rate and any discrete items that impact the interim periods. Our estimated annual effective tax rate differs from the U.S. federal statutory rate of 21%.

Six months ended June 30, 2021, compared to the six months ended June 30, 2020.

The table below shows our revenues and percentage of total revenues of each of our product lines for the six months ended June 30, 2021 and 2020.

	Six months ended June 30,					
	2021			2020		
	(in thousands)					
Rental	$	30,954	85.6 %	$	31,231	88.5 %
Sales		4,284	11.9 %		3,458	9.8 %
Service and Maintenance		908	2.5 %		606	1.7 %
Total	$	36,146		$	35,295	

Total revenue increased 2.4% to $36.1 million for the six months ended June 30, 2021 compared to $35.3 million during the nine months ended June 30, 2020. This increase was primarily a result of higher sales revenue (23.9% increase) during the first six months of 2021 mainly due to higher parts sales offset by lower rental revenue (0.9% decrease).

Rental revenue decreased to $31.0 million for the six months ended June 30, 2021 compared to $31.2 million during the six months ended June 30, 2020. This decrease during the first six months of 2021 was attributable to well shut-ins and unit returns due to a significant drop in oil prices resulting from the COVID-19 pandemic and crude oil demand destruction, partially offset by a greater number of large horsepower units being rented.

As of June 30, 2021, we had 2,257 compressor packages in our fleet, down from 2,335 units at June 30, 2020. The Company's total unit horsepower remained unchanged at 446,803 horsepower at June 30, 2021 compared to 446,805 horsepower at June 30, 2020, which reflects the addition to the Company's fleet of 16 high horsepower compressors with 7,780 horsepower over the past 12 months, partially offset by the retirement of 122 low horsepower units during the fourth quarter of 2020. As of June 30, 2021, we had 1,245 natural gas compressors with a total of 287,365 horsepower rented to 79 customers, compared to 1,273 natural gas compressors with a total of 284,373 horsepower rented to 84 customers as of June 30, 2020. As a result, our total rented horsepower as of June 30, 2021 increased by 1.1% over the last twelve months. Our rental fleet had unit utilization as of June 30, 2021, and 2020, respectively, of 55.2% and 54.5%, while our horsepower utilization for the same periods, respectively, was 64.3% and 63.6%. While both our unit utilization and horsepower utilization increased over the last twelve months, the decreases in rental revenues for the six months ended June 30, 2021was due to the fact that the six month period ended June 30, 2020 was buoyed by rental rates realized during the first quarter of 2020 that had minimal impact from the COVID-19 pandemic.

Sales revenue increased to $4.3 million for the six months ended June 30, 2021 compared to $3.5 million for the same period in 2020. This increase is mostly attributable to an increase in parts sales partially offset by a decrease in compressor sales. The reduction in compressor sales reflect significantly reduced industry activity levels due to the COVID-19 pandemic, lower commodity prices and severe capital constraints on exploration and production companies. Sales are subject to fluctuations in timing of industry activity related to capital projects and, as such, can vary substantially between periods.

Cost of rentals increased 11.8% to $16.2 million during the six months ended June 30, 2021 compared to $14.5 million during the six months ended June 30, 2020. This increase was primarily due to labor and parts expenses related to a significant increase in repair and maintenance work on our rental fleet. While repair and maintenance expenses are customary in our business, the timing of such expenses can fluctuate between periods resulting in periods with larger than normal expenses.

Cost of sales increased 22.0% to $4.4 million during the six months ended June 30, 2021 compared to $3.6 million during the six months ended June 30, 2020. This increase during the first six months of 2021 was primarily due to an increase in parts sales. This increase during the first six months of 2021 also reflects lower labor efficiency due to much lower activity levels at our fabrication facilities that was partially offset by lower payroll and benefits expenses.

Selling, general, and administrative expenses increased 8.9% to $5.3 million for the six months ended June 30, 2021 compared to $4.8 million for the same period in 2020. SG&A expenses during the first six months of 2021 were impacted by an unrealized loss ($305,000) on deferred compensation, while these expenses were impacted by a small unrealized gain ($42,000) on deferred compensation during the first six months of 2020. In addition, officer and director cash long-term incentive expenses increased approximately $255,000 during the first six months of 2021. These increases were partially offset by a reduction in professional fees ($240,000) and restricted stock expense ($152,000).

Depreciation and amortization expense increased 0.7% to $12.6 million for the six months ended June 30, 2021 compared to $12.5 million for the six months ended June 30, 2020. This increase was the result of larger horsepower units being added to the fleet. We added 42 units (approximately 12,804 horsepower) to our fleet over the past 12 months. Sixteen of those units were 400 horsepower or larger, representing 61% of the horsepower added.

We recorded an income tax benefit of $213,000 for the six months ended June 30, 2021 compared to an income tax benefit of $4.5 million for the six months ended June 30, 2020. For interim periods, our income tax benefit (expense) is computed based upon our estimated annual effective tax rate and any discrete items that impact the interim periods with the period ended June 30, 2020 being significantly impacted by prior year amended returns related to the CARES Act.

Non-GAAP Financial Measures

Our definition and use of Adjusted EBITDA

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

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

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

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

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

Reconciliation

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
	(in thousands)			
Net income (loss)	$ (1,918)	$ 165	$ (2,313)	$ 4,247
Interest expense	14	8	16	11
Income tax expense (benefit)	(339)	57	(213)	(4,486)
Depreciation and amortization	6,326	6,301	12,623	12,541
Non-cash stock compensation expense	422	563	896	1,066
Adjusted EBITDA	$ 4,505	$ 7,094	$ 11,009	$ 13,379

For the three months ended June 30, 2021, Adjusted EBITDA decreased $2.6 million (36.5%) due primarily to a $2.5 million increase in costs of rentals compared to the three months ended June 30, 2020. For the six months ended June 30, 2021, Adjusted EBITDA decreased $2.4 million (17.7%) due primarily to a $1.7 million increase in costs of rentals as well as increased cash SG&A expenses when compared to the six months ended June 30, 2020.

Liquidity and Capital Resources

Our working capital positions as of June 30, 2021 and December 31, 2020 are set forth below:

	June 30, 2021	December 31, 2020
	(in thousands)	
Current Assets:		
Cash and cash equivalents	$ 26,173	$ 28,925
Trade accounts receivable, net	12,229	11,884
Inventory	21,348	19,926
Federal income tax receivable	11,538	11,538
Prepaid income taxes	39	66
Prepaid expenses and other	775	379
Total current assets	72,102	72,718
Current Liabilities:		
Accounts payable	2,425	2,373
Accrued liabilities	10,998	6,770
Line of credit	—	417
Current operating leases	131	198
Deferred income	693	1,103
Total current liabilities	14,247	10,861
Total working capital	$ 57,855	$ 61,857

For the six months ended June 30, 2021, we invested $12.6 million in rental and property and other equipment. During the second quarter of 2021, we added $12.0 million in new equipment to our rental fleet and $617,000 mostly in vehicles as well as various other machinery and equipment. Our investment in rental equipment, property and other equipment also includes any changes to work-in-process related to our rental fleet jobs at the beginning of the period compared to the end of the period. Our rental work-in-process increased by $569,000 during the six months ended June 30, 2021. We financed our investment in rental equipment, property and other equipment with cash flow from operations and cash on hand.

Cash flows

At June 30, 2021, we had cash and cash equivalents of $26.2 million compared to $28.9 million at December 31, 2020. Our cash flows from operating activities of $12.8 million were partially offset by capital expenditures of $12.6 million during the six months ended June 30, 2021. We had working capital of $57.9 million at June 30, 2021 compared to $61.9 million at December 31, 2020. On December 31, 2020, we had outstanding debt of $417,000, which was all related to our line of credit. We generated cash flows from operating activities of $12.8 million during the first six months of 2021 compared to cash flows provided by operating activities of $14.8 million for the first six months of 2020. The decline in cash flows from operating activities was primarily driven by higher costs of rentals during the first six months of 2021 as well as higher SG&A expenses. These increases were partially offset by slightly higher sales margins.

Strategy

For the remainder of 2021, given the state of the economy and our industry during the COVID-19 pandemic, our plan is to continue to manage our operating expenses and capital expenditures. For the remainder of 2021, our forecasted capital expenditures are not anticipated to exceed our internally generated cash flows and our cash on hand. Any required capital will be for contracted, premium-priced additions to our compressor rental fleet and/or required service vehicles. We believe that cash flows from operations and our current cash position will be sufficient to satisfy our capital and liquidity requirements for the foreseeable future.

Bank Borrowings

We have a senior secured revolving credit agreement the ("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.

Critical Accounting Policies and Practices

There have been no changes in the critical accounting policies disclosed in the Company's Form 10-K for the year ended December 31, 2020.

Recently Issued Accounting Pronouncements

Please read Note 2, Summary of Significant Accounting Policies, Recently Issued Accounting Pronouncements in our condensed consolidated financial statements in 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 June 30, 2021, the off-balance sheet arrangements and transactions that we have entered into include operating lease agreements and purchase agreements. We do not believe that these arrangements are reasonably likely to materially affect our liquidity or availability of capital resources.

Special Note Regarding Forward-Looking Statements

Except for historical information contained herein, the statements in this report are forward-looking and made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties, which may cause our actual results in future periods to differ materially from forecasted results. Those risks include, among other things, the loss of market share through competition or otherwise; the introduction of competing technologies by other companies; a prolonged, substantial reduction in oil and natural gas prices, which could cause a decline in the demand for our products and services; and new governmental safety, health and environmental regulations, which could require us to make significant capital expenditures. The forward-looking statements included in this Form 10-Q are only made as of the date of this report, and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. A discussion of these and other risk factors is included in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no changes in the market risks disclosed in the Company's Form 10-K for the year ended December 31, 2020.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

An evaluation was carried out under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Vice President and Chief Financial Officer, of the effectiveness of the design of our “disclosure controls and procedures” (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended or, the “Exchange Act”) as of December 31, 2020, pursuant to Exchange Act Rule 13a-15. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily applies its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the President and Chief Executive Officer and our Vice President and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

PART II – OTHER INFORMATION

Item 1. 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 adverse effect on our financial position, results of operations or cash flows. We are not currently a party to any material legal proceedings and we are not aware of any threatened litigation.

Item 1A. Risk Factors

Please refer to and read Item 1A, Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 for a discussion of the risks associated with our Company and industry.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended June 30, 2021, we did not sell any securities which were not registered under the Securities Act of 1933. The following table summarizes our purchases of shares of common stock during this period.

ISSUER PURCHASES OF EQUITY SECURITIES[1,2]

For the Three Months Ended June 30, 2021	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that may yet be Purchased Under Plans or Programs[3]
		Common Stock *(in thousands)*		
April 1, 2021 to April 30, 2021	—	$ —	—	$ 9,510
May 1, 2021 to May 31, 2021	48,108	10.44	48,108	9,010
June 1, 2021 to June 30, 2021	126,899	$ 10.96	126,899	$ 7,618

[1] The table summarizes repurchases of (and remaining authority to repurchase) shares of our Common Stock.

[2] The figures in the table reflect transactions according to the settlement dates. For purposes of our unaudited consolidated financial statements included in this Form 10-Q, the impact of these repurchases is recorded according to the settlement dates.

[3] Our Board of directors authorized the repurchase of up to $10.0 million of our outstanding Common Stock in the open market (pursuant to Rule 10b5-1 plans or otherwise), block trades or privately negotiated transactions. On October 23, 2020, the repurchase program, which was initially set to expire on September 30, 2020, was extended to September 30, 2021. The amounts in this column indicate the remaining amounts that may yet be expended to repurchase shares under this authorization.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

1
2
3

Item 6. Exhibits

The following exhibits are filed herewith or incorporated herein by reference, as indicated:

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.
10.1	2019 Equity Incentive Plan (Incorporated by reference to Exhibit 4.1 of the Registrant’s Current Report on Form 8-K dated June 20, 2019 and filed with the Securities and Exchange Commission on June 21, 2019.)
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	Amended and restated Employment Agreement dated April 27, 2015 between Natural Gas Services Group, Inc. and Stephen C. Taylor (Incorporated by reference to Exhibit 10.1 of the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on April 29, 2015.)
10.4	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	Annual Incentive Bonus Plan (Incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission December 18, 2012.)
10.6	Credit Agreement dated as of May 11, 2021, among the Natural Gas Services Group, Inc. and NGSG Properties, LLC, a Colorado limited liability company, the banks and other financial institutions identified therein as Lenders from time to time party thereto and Texas Capital Bank, National Association, as Administrative Agent, Swing Line Lender and L/C Issuer.
10.7	Pledge and Security Agreement dated as of May 11, 2021, among Natural Gas Services Group, Inc., the Loan Parties (as defined therein) and Texas Capital Bank, National Association, as Administrative Agent.
10.8	Note dated as of May 11, 2021, by Natural Gas Services Group, Inc. in favor of Texas Capital Bank, National Association, as Lender.
*31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*31.2	Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
*32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*32.2	Certification of Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
	* Filed herewith.

SIGNATURES

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

NATURAL GAS SERVICES GROUP, INC.

/s/ Stephen C. Taylor	/s/ Micah C. Foster
Stephen C. Taylor President and Chief Executive Officer (Principal Executive Officer)	Micah C. Foster Vice President and Chief Financial Officer (Principal Accounting Officer)

August 13, 2021

Exhibit 31.1

Certifications

I, Stephen C. Taylor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Gas Services Group, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

1\. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2021

Natural Gas Services Group, Inc.

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

Exhibit 31.2

Certifications

I, Micah C. Foster, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Natural Gas Services Group, Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 13, 2021

Natural Gas Services Group, Inc.

By: /s/ Micah C. Foster

Micah C. Foster
Vice President and Chief Financial Officer
(Principal Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. §1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Natural Gas Services Group, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stephen C. Taylor, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 13, 2021

Natural Gas Services Group, Inc.

By: /s/ Stephen C. Taylor

Stephen C. Taylor,
President, CEO and Chairman of the Board of Directors
(Principal Executive Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. §1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Natural Gas Services Group, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Micah C. Foster, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 13, 2021

Natural Gas Services Group, Inc.

By: /s/ Micah C. Foster
Micah C. Foster
Vice President and Chief Financial Officer
(Principal Accounting Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.