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 **September 30, 2022**

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 ☒ No ☐

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 ☒ 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 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 ☐ 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of November 7, 2022, there were 12,424,026 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, except par value)
(unaudited)

	September 30, 2022	December 31, 2021
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,586	$ 22,942
Trade accounts receivable, net	12,599	10,389
Inventory	21,761	19,329
Federal income tax receivable (Note 4)	11,538	11,538
Prepaid income taxes	43	51
Prepaid expenses and other	1,279	854
Total current assets	49,806	65,103
Long-term inventory, net	1,726	1,582
Rental equipment, net	224,964	206,985
Property and equipment, net	20,015	20,828
Right of use assets - operating leases, net	277	285
Intangibles, net	931	1,025
Other assets	2,394	2,698
Total assets	$ 300,113	$ 298,506
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 9,968	$ 4,795
Accrued liabilities	15,522	14,103
Current operating leases	82	68
Deferred income	—	1,312
Total current liabilities	25,572	20,278
Long-term debt	2,000	—
Deferred income tax liability	39,573	39,288
Long-term operating leases	194	217
Other long-term liabilities	2,515	2,813
Total liabilities	69,854	62,596
Commitments and contingencies (Note 9)		
Stockholders' Equity:		
Preferred stock, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, 30,000 shares authorized, par value $0.01; 13,499 and 13,394 shares issued, respectively	135	134
Additional paid-in capital	114,838	114,017
Retained earnings	130,290	130,103
Treasury Shares, at cost, 1,310 and 775 shares, respectively	(15,004)	(8,344)
Total stockholders' equity	230,259	235,910
Total liabilities and stockholders' equity	$ 300,113	$ 298,506

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 September 30,		Nine months ended September 30,	
	2022	**2021**	**2022**	**2021**
Revenue:				
Rental income	$ 18,631	$ 16,195	$ 53,905	$ 47,149
Sales	1,786	1,472	5,970	5,756
Service and maintenance income	326	578	1,129	1,486
Total revenue	20,743	18,245	61,004	54,391
Operating costs and expenses:				
Cost of rentals, exclusive of depreciation stated separately below	9,988	8,826	28,460	25,065
Cost of sales, exclusive of depreciation stated separately below	1,987	1,563	5,416	5,955
Cost of service and maintenance, exclusive of depreciation stated separately below	186	327	593	625
Selling, general and administrative expenses	4,064	2,705	8,875	7,960
Depreciation and amortization	6,016	6,387	18,118	19,010
Total operating costs and expenses	22,241	19,808	61,462	58,615
Operating loss	(1,498)	(1,563)	(458)	(4,224)
Other income (expense):				
Interest expense	(25)	(25)	(74)	(40)
Other income, net	1,370	119	1,007	270
Total other income, net	1,345	94	933	230
Income (loss) before provision for income taxes	(153)	(1,469)	475	(3,994)
Income tax benefit (expense)	73	212	(288)	425
Net income (loss)	$ (80)	$ (1,257)	$ 187	$ (3,569)
Earnings (loss) per share:				
Basic	$ (0.01)	$ (0.10)	$ 0.02	$ (0.27)
Diluted	$ (0.01)	$ (0.10)	$ 0.02	$ (0.27)
Weighted average shares outstanding:				
Basic	12,192	13,121	12,344	13,225
Diluted	12,192	13,121	12,434	13,225

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				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
Compensation expense on restricted stock	—	—	—	—	421	—	—	—	421
Purchase of treasury shares	—	—	—	—	—	—	258	(2,540)	(2,540)
Net loss	—	—	—	—	—	(1,257)	—	—	(1,257)
BALANCES, September 30, 2021	—	$ —	13,394	$ 134	$ 113,596	$ 135,717	471	$ (4,922)	$ 244,525

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, 2022	—	$ —	13,394	$ 134	$ 114,017	$ 130,103	775	$ (8,344)	$ 235,910
Compensation expense on common stock options	—	—	—	—	21	—	—	—	21
Issuance of restricted stock	—	—	79	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	1	401	—	—	—	402
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(359)	—	—	—	(359)
Purchase of treasury shares	—	—	—	—	—	—	247	(2,928)	(2,928)
Net income	—	—	—	—	—	337	—	—	337
BALANCES, March 31, 2022	—	—	13,473	135	114,080	130,440	1,022	(11,272)	233,383
Compensation expense on common stock options	—	—	—	—	147	—	—	—	147
Issuance of restricted stock	—	—	26	—	—	—	—	—	—
Compensation expense on restricted common stock	—	—	—	—	184	—	—	—	184
Taxes paid related to net shares settlement of equity awards	—	—	—	—	(156)	—	—	—	(156)
Purchase of treasury shares	—	—	—	—	—	—	288	(3,732)	(3,732)
Net loss	—	—	—	—	—	(70)	—	—	(70)
BALANCES, June 30, 2022	—	$ —	13,499	$ 135	$ 114,255	$ 130,370	1,310	$ (15,004)	$ 229,756
Compensation expense on common stock options	—	—	—	—	193	—	—	—	193
Compensation expense on restricted common stock	—	—	—	—	390	—	—	—	390
Net loss	—	—	—	—	—	(80)	—	—	(80)
BALANCES, September 30, 2022	—	$ —	13,499	$ 135	$ 114,838	$ 130,290	1,310	$ (15,004)	$ 230,259

See accompanying notes to these unaudited condensed consolidated financial statements.

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

	Nine months ended September 30,	
	2022	**2021**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 187	$ (3,569)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,118	19,010
Amortization of debt issuance costs	35	18
Deferred income tax (benefit) expense	285	(442)
Stock-based compensation	1,337	1,316
Bad debt allowance	—	65
Gain on sale of assets	(1,449)	(127)
Loss (gain) on company owned life insurance	551	(162)
Changes in operating assets and liabilities:		
Trade accounts receivables	(2,210)	225
Inventory	(2,576)	(1,682)
Prepaid expenses and prepaid income taxes	(417)	(256)
Accounts payable and accrued liabilities	6,592	5,599
Deferred income	(1,312)	(410)
Other	(256)	373
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,885	19,958
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of rental equipment, property and other equipment	(35,338)	(19,080)
Purchase of company owned life insurance	(272)	(98)
Proceeds from sale of property and equipment	1,546	141
NET CASH USED IN INVESTING ACTIVITIES	(34,064)	(19,037)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan	2,000	—
Payments of other long-term liabilities, net	(2)	(1)
Payments of debt issuance costs	—	(237)
Repayments of line of credit, net	—	(417)
Purchase of treasury shares	(6,660)	(4,432)
Taxes paid related to net share settlement of equity awards	(515)	(335)
NET CASH USED IN FINANCING ACTIVITIES	(5,177)	(5,422)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(20,356)	(4,501)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	22,942	28,925
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,586	$ 24,424
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 38	$ 25
NON-CASH TRANSACTIONS		
Right of use asset acquired through an operating lease	$ 118	$ —

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 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 September 30, 2022 and the results of our operations for the three and nine months ended September 30, 2022 and 2021 not misleading. As permitted by the rules and regulations of the Securities and Exchange Commission (the "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, 2021 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 nine months ended September 30, 2022 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2022.

Revenue Recognition Policy

The Company recognizes revenue in accordance with ASC 606, Revenue from Contracts with Customers ("ASC 606"), except for rental revenue as discussed below. 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 nine months ended September 30, 2022 or 2021.

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 nine months ended September 30, 2022 and 2021:

	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
	(in thousands)		(in thousands)	
Compressors - sales	$ —	$ —	$ 2,253	$ 1,891
Flares - sales	131	74	214	149
Other (parts/rebuilds) - sales	1,655	1,398	3,503	3,716
Service and maintenance	326	578	1,129	1,486
Total revenue from contracts with customers	2,112	2,050	7,099	7,242
Add: ASC 842 rental revenue	18,631	16,195	53,905	47,149
Total revenue	$ 20,743	$ 18,245	$ 61,004	$ 54,391

Contract Balances

As of September 30, 2022 and December 31, 2021, we had the following receivables and deferred income from contracts with customers:

	September 30, 2022	December 31, 20
	(in thousands)	
Accounts Receivable		
Accounts receivable - contracts with customers	$ 5,188	$
Accounts receivable - ASC 842	7,782	
Total Accounts Receivable	12,970	
Less: Allowance for doubtful accounts	(371)	
Total Accounts Receivable, net	$ 12,599	$
Deferred income	$ —	$

The Company recognized sales revenues of $1.3 million for the nine months ended September 30, 2022 that was included in deferred income at the beginning of 2022. For the year ended December 31, 2021, the Company recognized sales revenues of $1.1 million that was included in deferred income at the beginning of 2021.

The increase of accounts receivable and decrease of deferred income were primarily due to normal timing differences between our performance and the customers' payments.

Remaining Performance Obligations

As of September 30, 2022, the Company did not have deferred 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 September 30, 2022.

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

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 September 30, 2022 and $64,000 at December 31, 2021, consisted of the following amounts:

	September 30, 2022	December 31, 20
	(in thousands)	
Raw materials - current	$ 18,608	$
Work-in-process	3,153	
Inventory - current	21,761	
Raw materials - long term (net of allowances of $37 and $64, respectively)	1,726	
Inventory - total	$ 23,487	$

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

We routinely review our inventory allowance balance to account for slow moving or obsolete inventory costs that may not be recoverable in the future.

A summary of our inventory allowance is as follows:

	September 30, 2022	December 31, 2021
	(in thousands)	
Beginning balance	$ 64	$ 221
Accruals	—	208
Write-offs	(27)	(365)
Ending balance	$ 37	$ 64

4. Federal Income Tax Receivable

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 allowed 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 September 30, 2022.

5. Rental Equipment

Our rental equipment and associated accumulated depreciation as of September 30, 2022 and December 31, 2021, respectively, consisted of the following:

	September 30, 2022	December 31, 2021
	(in thousands)	
Compressor units	$ 387,476	$ 374,336
Work-in-process	22,018	5,212
Rental equipment	409,494	379,548
Accumulated depreciation	(184,530)	(172,563)
Rental equipment, net of accumulated depreciation	$ 224,964	$ 206,985

We evaluated our rental equipment for potential impairment as of September 30, 2022, and determined that no such impairment existed as of that date.

6. Long-term Debt

Our long-term debt consists of the following:

	September 30, 2022	December 31, 2021
	(in thousands)	
Revolving credit facility	$ 2,000	$ —

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 $0.4 million 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 September 30, 2022, our allowable borrowing base was $18.0 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. In addition, we are required to pay a monthly commitment fee on the daily average unused amount of the commitment while the New Credit Agreement is in effect at an annual rate equal to 0.25% of the unused commitment amount. Accrued interest is payable monthly on outstanding principal amounts and unused commitment fee, 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 September 30, 2022, we were in compliance with all financial covenants in our New Credit Agreement. At September 30, 2022, we had $2.0 million outstanding under the New Credit Agreement with an interest rate of 6.50% as of September 30, 2022.

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

Stock Options

A summary of all option activity as of December 31, 2021, and changes during the nine months ended September 30, 2022 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, 2021	200,834	$	21.17	4.83	$	—
Granted	190,000	$	15.95	—	$	—
Cancelled / Forfeited	(50,750)	$	22.78	—	$	11
Expired	(13,500)	$	13.29	—	$	—
Outstanding, September 30, 2022	326,584	$	18.21	3.33	$	—
Exercisable, September 30, 2022	120,584	$	23.72	1.96	$	—

The following table summarizes information about our stock options outstanding at September 30, 2022:

	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	231,000	3.76	$	14.98	25,000	$	15.00
$18.01-22.00	13,000	0.47	$	18.75	13,000	$	18.75
$22.01-26.00	29,667	2.54	$	22.90	29,667	$	22.90
$26.01-30.00	20,750	4.38	$	28.15	20,750	$	28.15
$30.01-34.00	32,167	1.47	$	30.41	32,167	$	30.41
	326,584	3.33	$	18.21	120,584	$	23.72

The summary of the status of our unvested stock options as of December 31, 2021 and changes during the nine months ended September 30, 2022 is presented below:

Unvested Stock Options:	Shares		Weighted Average Grant Date Fair Value Per Share
Unvested at December 31, 2021	55,500	$	5.15
Granted	190,000	$	4.38
Vested	(30,000)	$	2.85
Exercised	—	$	—
Cancelled/Forfeited	(9,500)	$	5.42
Unvested at September 30, 2022	206,000	$	4.76

As of September 30, 2022, there was $0.7 million of unrecognized compensation cost related to unvested options. For the nine months ended September 30, 2022 there was $0.4 million of compensation expense for stock options. For the nine months ended September 30, 2021, there was no compensation expense for stock options.

Restricted Shares/Units

On March 18, 2021, the Compensation Committee awarded 129,212 shares of restricted common stock to two executive officers that vest ratably over three years, beginning on March 18, 2022. On June 17, 2021, the Compensation Committee awarded 5,000 shares of restricted stock to an executive officer that vests ratably over three years beginning on June 17, 2022. In addition, on March 18, 2021, 5,612 shares of restricted common stock were awarded to each of our three independent Board members. Lastly, on April 1, 2021, 5,291 shares of restricted common stock were awarded to a newly appointed Board member. 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 these directors vest 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 3 years, beginning on April 25, 2023. In addition, on August 15, 2022, the Compensation Committee awarded 60,839 shares of restricted stock to Mr. Stephen Taylor, our former Chief Executive Officer. The restricted shares granted to Mr. Taylor will vest in full on June 30, 2023.

Total compensation expense related to these and previously granted restricted stock awards was $1.0 million and $1.3 million for the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022, there was a total of $1.5 million of unrecognized compensation expense related to these shares/units which is expected to be recognized over the next 1.7 years.

A summary of all restricted stock/units outstanding as of December 31, 2021 and activity during the nine months ended September 30, 2022 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, 2021	276,319	$ 9.67	1.77	$ 2,893
Granted	109,727	$ 10.09		$ 1,107
Vested	(152,134)	$ 10.99		$ 1,778
Canceled/Forfeited	—	$ —		$ —
Outstanding, September 30, 2022	233,912	$ 9.01	1.71	$ 2,179

Other Long-Term Incentive Compensation

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 3 years beginning on the anniversary of the grant date. In addition, 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. On April 26, 2022, we issued a $50,000 award to each of our three independent Board members. These awards vest one year from the date of grant and are payable in cash upon vesting. There were no long-term incentive awards issued to executives during the nine months ended September 30, 2022. The Company accounts for these other long-term incentive awards as liabilities under accrued liabilities on our condensed consolidated balance sheet. The vesting of these awards is subject to acceleration upon certain events, such as (i) death or disability of the recipient, (ii) certain circumstances in connection with a change of control of the Company, (iii) for executive officers, termination without cause (as defined in the agreement), and (iv) for executive officers, resignation for good reason (as defined). Total compensation expense related to these other long-term incentive awards was approximately $0.7 million and $0.6 million for the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022, there was a total of $0.8 million of unrecognized compensation expense related to these other long-term incentive awards which is expected to be recognized over the next 0.6 years.

8. Earnings (Loss) per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	(in thousands, except per share data)			
Numerator:				
Net income (loss)	$ (80)	$ (1,257)	$ 187	$ (3,569)
Denominator for earnings (loss) per basic common share:				
Weighted average common shares outstanding	12,192	13,121	12,344	13,225
Denominator for earnings (loss) per diluted common share:				
Weighted average common shares outstanding	12,192	13,121	12,344	13,225
Dilutive effect of stock options and restricted stock/units	—	—	90	—
Diluted weighted average shares	12,192	13,121	12,434	13,225
Earnings (loss) per common share:				
Basic	$ (0.01)	$ (0.10)	$ 0.02	$ (0.27)
Diluted	$ (0.01)	$ (0.10)	$ 0.02	$ (0.27)

For the three and nine months ended September 30, 2022, 233,912 and 143,891 restricted stock/units, respectively, were not included in the computation of diluted earnings per share due to their antidilutive effect. For the three and nine months ended September 30, 2022 326,584 stock options were not included in the computation of diluted loss per share due to their antidilutive effect.

For the three and nine months ended September 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.

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.

10. Subsequent Events

In accordance with ASC 855 - Subsequent Events - the Company has evaluated all events subsequent to the balance sheet date as of September 30, 2022 through the date of this report and believes nothing is required thereunder.

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, 2021 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, 2021, 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 September 30, 2022, we had 1,196 natural gas compressors totaling 305,953 horsepower rented to 77 customers compared to 1,221 natural gas compressors totaling 288,706 horsepower rented to 78 customers at September 30, 2021.

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 compressor packages are acquired through periodic purchase orders placed with third-party suppliers on an "as needed" basis, which presently require lead times between three to six 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. Recent inflationary pressures have created price increases in both major and minor components for our compressors as well as longer than normal lead times for such components. To date, we have been able to increase our rental rates and sales prices proportionally; however, if cost increases continue and we are no longer able to increase our rental rates and sales prices such an event could have a material adverse effect on the results of our operations and financial condition.

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 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. In addition, recent heightened focus on the emissions profile of our customers has created a shift in demand from natural gas powered compression to electric motor compression in areas where the electric infrastructure can accommodate the energy demands of these units. In response to this shift, we have announced plans to convert up to 100 compressor packages from internal combustion engines to electric motors. The initial conversions will focus on packages in the 200-250 horsepower range.

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. Commodity prices stabilized during 2021 with a sharp increase in 2022. Historically, activity levels of exploration and production companies have been dependent on commodity prices. However, recent capital market focus on cash returns from exploration and production companies has restricted capital spending below levels that have historically been observed during higher commodity price environments. 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 capital allocations. As such, we still expect compressor sales to be low for the remainder of 2022, as exploration and production companies have elected to rent compression units rather than allocating capital dollars to purchase new compression.

Results of Operations

Three months ended September 30, 2022, compared to the three months ended September 30, 2021.

The table below shows our revenues and percentage of total revenues of each of our product lines for the three months ended September 30, 2022 and 2021.

	Three months ended September 30,			
	2022		2021	
	(in thousands)			
Rental	$ 18,631	89.8 %	$ 16,195	88.8 %
Sales	1,786	8.6 %	1,472	8.1 %
Service and Maintenance	326	1.6 %	578	3.1 %
Total	$ 20,743		$ 18,245	

Total revenue increased 13.7% to $20.7 million for the three months ended September 30, 2022 compared to $18.2 million for the three months ended September 30, 2021. This increase was primarily a result of higher rental revenue (15.0% increase) during 2022 partially offset by lower service and maintenance revenues.

Rental revenue increased to $18.6 million for the three months ended September 30, 2022 compared to $16.2 million for the same period in 2021. This increase during the third quarter of 2022 was attributable to (i) an increase in high horsepower compression rentals as these units carry a higher rental revenue rate than our lower horsepower units and (ii) rental rate increases across a portion of our fleet intended to offset inflationary pressures related to the costs of our rental fleet.

As of September 30, 2022, we had 1,976 compressor packages in our fleet, down from 2,275 units at September 30, 2021 due to the retirement of units during the fourth quarter of 2021 and the disposition of a small number of compressors from the fleet during this year. The Company's total unit horsepower decreased slightly to 423,658 horsepower at September 30, 2022 compared to 452,283 horsepower at September 30, 2021, due to the aforementioned unit retirements and dispositions partially offset by the addition to the Company's fleet of 24 high horsepower compressors with 14,260 horsepower over the past 12 months. As of September 30, 2022, we had 1,196 natural gas compressors with a total of 305,953 horsepower rented to 77 customers, compared to 1,221 natural gas compressors with a total of 288,706 horsepower rented to 78 customers as of September 30, 2021. As a result, our total rented horsepower as of September 30, 2022 increased by 6.0% over the last twelve months. Our rental fleet had unit utilization as of September 30, 2022, and 2021, respectively, of 60.5% and 53.7%, and our horsepower utilization for the same dates increased to 72.2% from 63.8%. Our total rented horsepower increased by 6.0% contrasted against a 2.0% decrease 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 not recovered in line with recent commodity price increases.

Sales revenue increased 21.3% to $1.8 million for the three months ended September 30, 2022 compared to $1.5 million for the three months ended September 30, 2021. This increase is primarily attributable to increased parts sales during the third quarter of 2022 compared to the same period in 2021. 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 $10.0 million during the three months ended September 30, 2022 compared to $8.8 million during the three months ended September 30, 2021. While rental revenues increased 15.0%, this 13.2% increase in costs of rentals is primarily due to inflationary pressures on labor and parts. 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 27.1% to $2.0 million during the three months ended September 30, 2022 compared to $1.6 million during the three months ended September 30, 2021. This increase was primarily due to an increase in the volume of parts sales at margins below our historical realizations.

Selling, general, and administrative ("SG&A") expenses increased 50.2% to $4.1 million for the three months ended September 30, 2022 compared $2.7 million during the same period in 2021. This increase in SG&A expenses was primarily attributable to (i) $1.0 million of severance expenses related to the retirement agreement between NGS and Mr. Stephen Taylor, our prior Chief Executive Officer, (ii) $0.2 million increase in stock option compensation expenses, (iii) a $0.2 million increase in executive officer salaries primarily related to our Interim Chief Executive Officer and (iv) $0.1 million increase in software expenses related to data automation efforts.

Depreciation and amortization expense decreased to $6.0 million for the three months ended September 30, 2022 compared to $6.4 million for the three months ended September 30, 2021. This was the result of a reduction in our rental fleet due to unit retirements in the fourth quarter of 2021.

We recorded an income tax benefit of approximately $73,000 for the three months ended September 30, 2022 compared to an income tax benefit of $0.2 million for the three months ended September 30, 2021. 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% primarily as a result of expenses not deductible for income tax purposes.

Nine months ended September 30, 2022, compared to the nine months ended September 30, 2021.

The table below shows our revenues and percentage of total revenues of each of our product lines for the nine months ended September 30, 2022 and 2021.

	Nine months ended September 30,					
	2022			2021		
	(in thousands)					
Rental	$	53,905	88.4 %	$	47,149	86.7 %
Sales		5,970	9.8 %		5,756	10.6 %
Service and Maintenance		1,129	1.8 %		1,486	2.7 %
Total	$	61,004		$	54,391	

Total revenue increased 12.2% to $61.0 million for the nine months ended September 30, 2022 compared to $54.4 million during the nine months ended September 30, 2021. This increase was primarily a result of higher rental revenue (14.3% increase) during the first nine months of 2022 partially offset by decreased service and maintenance revenue (24.0% decrease).

Rental revenue increased to $53.9 million for the nine months ended September 30, 2022 compared to $47.1 million during the nine months ended September 30, 2021. This increase during the first nine months of 2022 was attributable to an increase in high horsepower compression rentals as these units carry a higher rental revenue rate than our lower horsepower units and, to a lesser extent, rental rate increases across a portion of our fleet intended to offset inflationary pressures related to the costs of our rental fleet.

Sales revenue increased to $6.0 million for the nine months ended September 30, 2022 compared to $5.8 million for the same period in 2021. This increase is mostly attributable to an increase in compressor sales partially offset by a slight decrease in parts sales. 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 13.5% to $28.5 million during the nine months ended September 30, 2022 compared to $25.1 million during the nine months ended September 30, 2021. This increase was primarily due to inflationary pressures on labor and parts as well as increased high horsepower units being placed into service. 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 9.1% to $5.4 million during the nine months ended September 30, 2022 compared to $6.0 million during the nine months ended September 30, 2021. This decrease during the first nine months of 2022 was primarily due to a decrease in costs of sales attributable to cost containment efforts in our fabrication shops.

Selling, general, and administrative expenses increased 11.5% to $8.9 million for the nine months ended September 30, 2022 compared to $8.0 million for the same period in 2021. SG&A expenses during the first nine months of 2022 were impacted by (i) $1.0 million of severance expenses related to the retirement agreement between NGS and Mr. Stephen Taylor, our prior Chief Executive Officer, (ii) a $0.4 million increase in stock option compensation expense and (iii) a $0.3 million increase in executive officer salaries primarily related to our Interim Chief Executive Officer. These increases were partially offset by a $0.7 million reduction in deferred compensation expense.

Depreciation and amortization expense decreased 4.7% to $18.1 million for the nine months ended September 30, 2022 compared to $19.0 million for the nine months ended September 30, 2021. This decrease was the result of unit retirements in the fourth quarter of 2021.

We recorded an income tax expense of $0.3 million for the nine months ended September 30, 2022 compared to an income tax benefit of $0.4 million for the nine months ended September 30, 2021. 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.

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, severance expenses, 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, and as a basis for strategic planning and forecasting.

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 September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Net income (loss)	$ (80)	$ (1,257)	$ 187	$ (3,569)
Interest expense	25	25	74	40
Income tax expense (benefit)	(73)	(212)	288	(425)
Depreciation and amortization	6,016	6,387	18,118	19,010
Non-cash stock compensation expense	583	421	1,337	1,316
Severance expenses	1,258	—	1,407	—
Adjusted EBITDA	$ 7,729	$ 5,364	$ 21,411	$ 16,372

For the three months ended September 30, 2022, Adjusted EBITDA increased $2.4 million (44.1%) due primarily to a $2.5 million increase in total revenues and a $1.3 million gain on sale of compression from the rental fleet partially offset by a $1.2 million increase in costs of rentals. For the nine months ended September 30, 2022, Adjusted EBITDA increased $5.0 million (30.8%) due primarily to (i) a $6.6 million increase in total revenues, (ii) a $1.4 million gain on sales of compression from the rental fleet and (iii) a $0.5 million reduction in costs of sales partially offset by a $3.4 million increase in costs of rentals.

Liquidity and Capital Resources

Our working capital positions as of September 30, 2022 and December 31, 2021 are set forth below:

	September 30, 2022	December 31, 2021
	(in thousands)	
Current Assets:		
Cash and cash equivalents	$ 2,586	$ 22,942
Trade accounts receivable, net	12,599	10,389
Inventory	21,761	19,329
Federal income tax receivable	11,538	11,538
Prepaid income taxes	43	51
Prepaid expenses and other	1,279	854
Total current assets	49,806	65,103
Current Liabilities:		
Accounts payable	9,968	4,795
Accrued liabilities	15,522	14,103
Current operating leases	82	68
Deferred income	—	1,312
Total current liabilities	25,572	20,278
Total working capital	$ 24,234	$ 44,825

For the nine months ended September 30, 2022, we invested $35.3 million in rental and property and other equipment by adding $34.6 million in new equipment to our rental fleet and $0.8 million primarily 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 $16.8 million during the nine months ended September 30, 2022. We financed our investment in rental equipment, property and other equipment with cash flow from operations, cash on hand and borrowings under our revolving credit facility. We anticipate that our cash flows from operations as well as our borrowing capacity under our New Credit Agreement will provide adequate liquidity for our planned capital expenditures during the remainder of 2022. For any new capital expenditures in 2023 and beyond that exceeds our cash flow from operations, we anticipate that we would need to negotiate an expansion of our borrowing capacity under our New Credit Agreement. While we control the timing and extent of our capital expenditures, there is no assurance that any such borrowing expansion would be granted.

Cash flows

At September 30, 2022, we had cash and cash equivalents of $2.6 million compared to $22.9 million at December 31, 2021. Our cash flows from operating activities of $18.9 million were offset by capital expenditures of $35.3 million during the nine months ended September 30, 2022. We had working capital of $24.2 million at September 30, 2022 compared to $44.8 million at December 31, 2021. We generated cash flows from operating activities of $18.9 million during the first nine months of 2022 compared to cash flows provided by operating activities of $20.0 million for the first nine months of 2021. The decrease in cash flows from operating activities was primarily driven by higher costs of rentals during the first nine months of 2022.

Strategy

For the remainder of 2022, our overall plan is to continue monitoring and holding expenses in line with the anticipated level of activity, fabricate rental fleet equipment only in direct response to market requirements, emphasize marketing of our idle gas compressor units and limit bank borrowing in line with market conditions. For the remainder of 2022, our forecasted capital expenditures are not anticipated to exceed our internally generated cash flows, cash on hand and borrowing availability under our New Credit Agreement. The majority of required capital will be for contracted, premium-priced additions to our compressor rental fleet and/or required service vehicles. We believe market conditions indicate significant demand growth for large horesepower compression in 2023 and beyond. While we believe that cash flows from operations, our current cash position and borrowing capacity under our New Credit Agreement will be sufficient to satisfy a portion of our capital activity, we will need to negotiate an expansion of our borrowing capacity under our New Credit Agreement to meet the capital expenditure requirements needed to meet anticipated additional demand.

Bank Borrowings

The New Credit Agreement with Texas Capital Bank, National Association (the "Lender") has 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. As of September 30, 2022, we had $2.0 million of borrowings outstanding under the New Credit Agreement.

Critical Accounting Policies and Practices

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States. 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. Management has determined that our critical accounting policies are those that relate to revenue recognition, estimating the allowance for doubtful accounts, accounting for income taxes, accounting for long-lived assets and accounting for inventory.

There have been no changes in the critical accounting policies disclosed in the Company's Form 10-K for the year ended December 31, 2021.

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 September 30, 2022, the off-balance sheet arrangements and transactions that we have entered into include 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, 2021 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, 2021.

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 Interim 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, 2021, 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 Interim 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.

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, 2021 for a discussion of the risks associated with our Company and industry.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

On November 11, 2022, John W. Chisholm tendered his resignation as our Interim Chief Executive Officer and President. In connection therewith, the Board of Directors of the Company (the "Board") 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 is our Chairman of the Board and he will continue to serve in that capacity. Mr. Taylor served as our Chief Executive Officer and President for 17 years prior to his retirement in May 2022. Mr. Taylor will not receive any additional compensation for his services as our Interim Chief Executive Officer and President, although he will continue to receive the compensation and benefits set forth in the Retirement Agreement between Mr. Taylor and the Company dated May 17, 2022, as reported in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 19, 2022.

Stephen C. Taylor, 68, ws President and Chief Executive Officer of Natural Gas Services Group from January 2005 until his retirement from the positions effective May 17, 2022. He was elected as a Director of Natural Gas Services Group at the annual meeting of shareholders in June 2005. Effective January 1, 2006, Mr. Taylor was appointed Chairman of the Board. Immediately prior to joining Natural Gas Services Group, Mr. Taylor held the position of General Manager − US Operations for Trican Production Services, Inc. from 2002 through 2004. Mr. Taylor joined Halliburton Resource Management in 1976, becoming its Vice President − Operations in 1989. Beginning in 1993, he held multiple senior level management positions with Halliburton Energy Services until 2000 when he was elected Senior Vice President/Chief Operating Officer of Enventure Global Technology, LLC, a joint-venture deep water drilling technology company owned by Halliburton Company and Shell Oil Company. Mr. Taylor elected early retirement from Halliburton Company in 2002 to join Trican Production Services, Inc. Mr. Taylor holds a Bachelor of Science degree in Mechanical Engineering from Texas Tech University and a Master of Business Administration degree from the University of Texas at Austin.

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.
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	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. (Incorporated by reference to Exhibit 10.6 of the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 14, 2021.)
10.6	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. (Incorporated by reference to Exhibit 10.7 of the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 14, 2021.)
10.7	Note dated as of May 11, 2021, by Natural Gas Services Group, Inc. in favor of Texas Capital Bank, National Association, as Lender. (Incorporated by reference to Exhibit 10.8 of the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 14, 2021.)
10.8	Letter Agreement dated June 9, 2022 between Natural Gas Services Group, Inc. and John W. Chisholm (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 13, 2022.)
31.1*	Certification of Interim 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 Interim 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 Interim President and Chief Executive Officer (Principal Executive Officer)	Micah C. Foster Vice President and Chief Financial Officer (Principal Accounting Officer)
November 14, 2022	November 14, 2022

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: November 14, 2022

Natural Gas Services Group, Inc.

By: /s/ Stephen C. Taylor

Stephen C. Taylor
Interim President and Chief Executive Officer
(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: November 14, 2022

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 September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen C. Taylor, Interim 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: November 14, 2022

Natural Gas Services Group, Inc.

By: /s/ Stephen C. Taylor
Stephen C. Taylor
Interim President and Chief Executive Officer
(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 September 30, 2022 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: November 14, 2022

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.