



January 30, 2017
Via EDGAR
United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549
Attn: H. Roger Schwall
Re: Natural Gas Services Group, Inc.
Form 10-K for Fiscal Year Ended December 31, 2015
Filed March 11, 2016
Definitive Proxy Statement
Filed April 29, 2016
File No. 001-31398

Dear Mr. Schwall:

Enclosed for filing via EDGAR is Natural Gas Services Group's response to the comments of the Staff contained in the Staff's letter dated December 23, 2016, commenting on the filings referenced above. Our responses follow the restatement of your questions, which are in bold.

Form 10-K for the year ended December 31, 2015

Selected Financial Data, page 20

- 1. We note your presentation of the non-GAAP measure gross margin. Explain to us why you believe the title for this non-GAAP measure is not the same as, or very similar to, the title used for a GAAP financial measure. See the FASB ASC master glossary and Item 10(e)(1)(ii)(E) of Regulation S-K.**

We respectfully submit to the staff that we have consistently used this measure and reported it as a non-GAAP measure to avoid any confusion with the definition of the GAAP measure, which is defined in the FASB ASC master glossary as "The excess of sales over cost of goods sold. Gross margin does not consider all operating expenses." While our cost of goods sold used in gross margin excludes certain expenses, it may not have been clear to our readers which expenses are excluded. We have used a measure that we fully and clearly define to provide clarity to the readers of our financial data. We believed that this was a conservative approach that was consistent with Item 10(e)(1)(ii)(E) of Regulation S-K, which requires that a registrant not use titles or descriptions of non-GAAP measure that are confusingly similar to descriptions used for GAAP financial measures. However, based on the comment, it appears that the staff believes that our use of gross margin is within the GAAP definition. Therefore, unless the staff indicates otherwise, we will discontinue the classification by us of gross margin as a non-GAAP measure.

- 2. Your presentation of the non-GAAP measure gross margin includes reconciliation to net income. Explain to us why you believe net income represents the most directly comparable financial measure calculated and presented in accordance with GAAP. See Item 10(e)(1)(i)(A) of Regulation S-K.**

We respectfully submit to the staff that by providing a continuous combined reconciliation of our two non-GAAP financial measures in a single table we reconcile adjusted EBITDA to net income and then reconcile gross margin to adjusted EBITDA. We believe this provides a presentation with at least equal prominence of the most directly comparable financial measure, as per Item 10(e)(1)(i)(A) of Regulation S-K. Specifically, gross margin presented the profitability of our activities before interest, depreciation, selling, general and administrative and taxes. However, based on our response to comment #1 we are proposing to not report gross margin as a non-GAAP measure, and therefore no reconciliation of gross margin as a non-GAAP financial measure will be made in future filings.

Statements of Income, page F-3

- 3. You present cost of rentals, cost of sales and cost of services and maintenance, exclusive of depreciation. However, you do not disclose the amount of depreciation excluded from each line item. If you are relying on the accommodation outlined in SAB Topic 11.B in excluding depreciation and amortization from certain cost and expense categories, you should separately report depreciation and amortization that is attributable to each line from which it has been excluded.**

We respectfully submit to the staff that our presentation shows separately a line titled depreciation and amortization, which includes expenses excluded from cost of sales. The majority of this line represents depreciation of our rental equipment, offices and vehicles associated with rental activity. Of the \$22.8 million reported as depreciation and amortization, \$22.3 million or 98%, is attributed to rental activity. We also provide the depreciation on rental equipment to our readers on page F-11 Note 2, Rental Activity from which the reader can see that the majority of our depreciation is derived from our rental activity. While our presentation is in consideration of SAB Topic 11.B, we believe a further breakout of depreciation would not provide materially meaningful information to the readers of the statements. We will add disclosure to page F-11 Note 2 that more clearly states that depreciation outside of that related to rental revenue is immaterial.

Notes to Financial Statements, page F-6

Note 1 - Summary of Significant Accounting Policies

Revenue Recognition

- 4. We note the disclosure indicating that you have recognized revenue under bill and hold arrangements. Explain to us, in detail, how you have satisfied each of the criteria identified in SAB Topic 13.A.3.a for these arrangements. As part of your response, send us a copy of a representative sales agreement for a bill and hold transaction.**

We respectfully submit to the staff that in recognizing revenue under a bill and hold arrangement, we apply the criteria identified in SAB Topic 13.A.3.a with supporting documentation. Specifically, we satisfy the following criteria that the Commission has set forth in order to recognize revenue when delivery has not occurred:

- 1) **The risks of ownership must have passed to the buyer.**

The customer indicates acceptance of equipment and requests that delivery be delayed. This is confirmed through a bill and hold letter from our customer (see attached Exhibit A - Bill and Hold Letter). The letter indicates acceptance of legal title, liability and assumption of responsibility for the equipment. It states that the customer is requesting that we temporarily store the equipment until a certain date.

- 2) **The customer must have made a fixed commitment to purchase the goods, preferably in written documentation.**

Each transaction is evidenced by a Purchase Order, Sales Agreement, and/or signed Order Confirmation (see attached Exhibit B) and supported by our terms and conditions (see attached Exhibit C) which are referenced in the sales documents. In some cases, circumstances (most notably a delay in the completion of a project) will cause a customer to request that equipment be held after these agreements have been completed. In those cases, the request is in the form of a letter from the customer (see attached Exhibit A - Bill and Hold Letter). These documents are executed by both parties either by signature or electronically.

In addition, on our major equipment sales (whether they are bill and hold arrangements or not) we have instituted a practice of requiring progress payments. Under this practice, payments are received as the manufacturing process progresses (see attached example - Progressive Payment). Revenue is not recognized until all performance obligations complete. The final billing is typically made upon completing and represents about 10-30% of the total sales price. This practice not only ensures that payment will be received, but also signifies the customer's intent to purchase the equipment they have contracted for. Further, we perform credit history reviews prior to entering into any transaction with customers. We have not experienced any collections issues related to our bill and hold transactions.

- 3) **The buyer, not the seller, must request that the transaction be on a bill and hold basis. The buyer must have a substantial business purpose for ordering the goods on a bill and hold basis.**

Bill and hold letters are received from our customers requesting that we hold equipment until scheduling and/or logistics can be resolved (typically, the completion of a project) and specifies a later delivery date. These requests are initiated by the customer based on their unique situation.

4) **There must be a fixed schedule for delivery of the goods. The date for delivery must be reasonable and must be consistent with the buyer's business purpose (e.g., storage periods are customary in the industry).**

The bill and hold letters that we accept are initiated by our customers and follows industry practice and requirements. For example, in this industry the timing of a project can be delayed leading to a change in the immediate delivery of the equipment. The letter indicates a fixed date for later delivery of the equipment. These delays and request for storage are typical in the oil and gas industry due to uncontrollable factors that can delay project completion. These factors can include weather, drilling difficulties or construction of production infrastructure.

5) **The seller must not have retained any specific performance obligations such that the earning process is not complete.**

Our sales contracts (whether they are bill and hold arrangements or not) are fixed priced, and do not include provisions for cancellation. Any letters requesting bill and hold arrangements are not accepted with language that alters the original agreement. We typically enter into bill and hold arrangements with customers with whom we have an established history of business and are of sufficient operational and financial size to complete the transaction. Our bill and hold letters are not accepted with any added conditions or performance obligations.

6) **The ordered goods must have been segregated from the seller's inventory and not be subject to being used to fill other orders.**

Our compressors are extremely large and tailored pieces of equipment that are easily identified. Given that, the equipment is usually customized for that specific customer and it is not used to fill any other order. Under bill and hold arrangements, the respective equipment is moved to a designated area and labeled as such.

7) **The equipment [product] must be complete and ready for shipment.**

Under our bill and hold arrangements, we recognize revenue when equipment is complete and ready to deliver to the customer, the customer has requested the equipment be held (typically due to delays in their projects that require the equipment) and the customer accepts ownership of the equipment. This acceptance by the customer is documented by the customer in a letter to us (see attached Example A - Bill and Hold Letter).

Definitive Proxy Statement

Annual Incentive Bonus Plan, page 34

5. **We note your discussion of your Annual Incentive Bonus Plan. Please tell us what consideration you gave to including this compensatory agreement pursuant to Item 601(b)(10)(iii) of Regulation S-K.**

We respectfully submit to the staff that we filed the Annual Incentive Bonus Plan as an exhibit to our Report on Form 8-K filed with the Commission on December 18, 2012, pursuant to Item 601(b)(10)(iii) of Regulation S-K. However, we inadvertently did not carry forward the listing and incorporation by reference of the plan in our exhibits lists and indexes contained in our filings since the original filing of the plan. We will list and incorporate by reference to the plan in our future exhibit listings and indexes in our reports and filings with the Commission when required by Item 601(b)(10)(iii).

The Company acknowledges that:

- the Company is responsible for the adequacy and accuracy of the disclosure in the filing;
- staff comments or changes to disclosure in response to staff comments do not foreclose the Commission from taking any action with respect to the filing; and
- the Company may not assert staff comments as defense in any proceeding initiated by the Commission or any person under the federal securities laws of the United States.

If you have any questions, please feel free to contact Larry Lawrence, our Chief Financial Officer at (432) 262-2700; by email at larry.lawrence@ngsggi.com or Dave Thayer, our SEC Attorney at (303)785-1623; by email at dthayer@joneskeller.com.

Sincerely,
NATURAL GAS SERVICES GROUP, INC.

By: /s/ G. Larry Lawrence
G. Larry Lawrence
Chief Financial Officer

[Natural Gas Services Group, Inc. Letterhead]

[Date]

Dear []

This letter is to confirm that [Customer Name] has accepted title to and assumes all responsibility for the following Compressor purchases under Purchase Order [insert order number and date of the purchase order]. This contract includes the following jobs [insert job reference numbers]. [Customer] requests that the above-referenced completed compressor packages be temporarily stored at Natural Gas Services Group, Inc.'s facility located at 12301 West County Road 125, Odessa, TX. [Customer] currently has no place to hold the completed compressor packages and anticipates delivery to be made by [insert date]. [Customer] releases Natural Gas Services Group, Inc. from any liability or responsibility associated with the storage of said completed compressors.

The aforementioned applies with the exception of willful negligence by an NGSG employee or agent.

Sincerely,

[Insert name of authorized signatory]

[Insert name of Customer]

EXHIBIT B

Natural Gas Services Group, Inc
508 W. Wall, Suite 550
Midland, Texas 79701
432-262-2700

ORDER CONFIRMATION

Date:
02/16/2016

QUOTE /JOB NO
D-16-xxx / FL0210xx

CUSTOMER Info:

Company, Inc
123 Main
Suite 000
Midland, TX 79701

CUSTOMER PROJECT Info:

Site 1
Site 2
Site 3
Site 4

QTY	UNIT	DESCRIPTION	UNIT PRICE	TOTAL
1EA		Compressor Package	\$	\$
		Per Specs		
1EA		Compressor	\$	\$
		Per Specs		
1EA		Compressor Adder	\$	\$
		0		
0	0	0	0	0
		0		
				\$

Notes:

Upon Completion Contact: [Name] @ 432-697-xxxx

Payment Terms: XX% with Order

XX% Receipt of Order

XX% Receipt of Major Equipment

XX% Notification of Shipment Ready

Date order received: 02/16/2016 by email from John Smith

Projected shipping time and terms: 4-5 Weeks ARO, ExWorks Midland, TX

Terms of Acceptance: NGSG accepts this order pursuant to previously submitted and above referenced Quotation acceptance of NGSG "Terms and Conditions of Sale" and approval of customer credit. Deliveries quoted are based upon routine manufacturing and key supplier deliveries. Any change orders" from clients or component delays from critical suppliers may have an impact upon final delivery".

Please sign below as affirmation of this confirmation to begin fabrication of your order.

X_____

Authorized Signature (customer)

TERMS AND CONDITIONS OF SALE

The following terms and conditions of sale shall apply to any new product manufactured by **Natural Gas Services Group, Inc.** (Seller) and purchased and paid for by customer (Buyer). Any exceptions, comments or other project specific terms and conditions of sale that are noted within the Seller's quotation shall supercede the terms and conditions of sale as stated herein.

SHIPPING SCHEDULES, CHARGES AND DELAYS: Prices stated are F.O.B. point of shipment unless otherwise expressly agreed in writing. All shipping dates are approximate. Seller reserves the right to change or modify the design and construction of any product. Unless otherwise expressly agreed in writing by Seller, shipments will be made from points and by carriers and routes selected by Seller with all freight charges to be paid by Buyer. Seller shall be entitled to ship in lots and to bill immediately for any appropriated portion of the total selling price. Should buyer fail to accept or pay for each shipment or delivery, Seller may, without prejudice to any other lawful remedy, defer further shipment or deliveries until acceptance or payment, or Seller may regard such failure to accept or pay for such shipment as a breach of the whole contract by Buyer. If any shipment is delayed beyond the scheduled shipping date at the request of Buyer or as the result of any FORCE MAJEURE condition, Buyer shall (i) pay all storage charges, (ii) assume full risk of loss, damage or destruction, and (iii) pay the purchase price of such goods as provided herein upon receipt of Seller's invoice.

TERMS OF PAYMENT: Unless otherwise specifically set forth herein by Seller, Seller's terms of payment are net cash due in full upon acceptance of the order. All sums are due and payable in Midland, Texas. Seller reserves the right at any time to alter or revoke any credit extended to Buyer because of Buyer's failure to pay for any goods when due or for any other reason deemed good and sufficient by Seller. All past due amounts shall bear interest until paid at the highest legal rate of interest per annum permitted to be charged to Buyer. Buyer shall pay for all sales, use, excise or similar taxes which shall arise in regard to the sale.

RISK OF LOSS, TITLE AND SECURITY: Full risk of loss, damage or destruction of the goods shall pass to Buyer upon delivery of the goods to the carrier at the point of shipment or upon delivery to storage as provided in the SHIPPING SCHEDULES, CHARGES AND DELAYS provision. Seller is not responsible and assumes no liability for obtaining or providing insurance of any type with respect to any goods. Title to the goods shall pass to Buyer upon delivery of the goods to the carrier at point of shipment (or in the case of shipment by Seller on Seller's trucks, title shall pass upon delivery of the goods to buyer) or upon delivery to storage as provided in the SHIPPING SCHEDULES, CHARGES AND DELAYS provision. However, Seller retains the title to all goods for security purposes only and may ship such goods under reservation a security interest to itself or any other person.

LIMITED LIABILITY: Seller's liability for any and all claims, charges, expenses, damaged, losses and injuries arising out of or relating to its performance or breach of any agreement of sale of goods and the manufacture, sale, delivery, resale, repair or use of any goods shall not exceed the purchase price of such goods. In no event shall Seller be liable to any person for incidental, special and consequential damages, whether direct or indirect. Such excluded damages include but are not limited to cost of removal and reinstallation of goods, loss of goodwill, loss of profits, and loss of use or interruption of business. Any action for Seller's breach hereunder must be commenced with in two years after the cause of action has accrued.

LIMITED WARRANTY: Seller, subject to the following conditions, limitations and exclusions, warrants to Buyer that any new product manufactured by Seller and purchased and paid for by Buyer will be free from defects in material and workmanship for twelve months from the date of initial use or 18 months from the date of shipment, whichever period expires first. Seller warrants products manufactured by others, including, but not limited to prime movers such as engines and electric motors, compressors, electric controls, and similar products, only to the extent that Seller is able to enforce warranties provided to Seller by the manufacturer of such products. Seller warrants replacement parts and products of the manufacture only to the extent of and for the unexpired warranty period of Seller's warranty applicable to the replaced part or product, if any. The terms, conditions and limitations of Seller's warranties cannot be waived or modified except by an instrument in writing executed by a duly authorized officer of Seller.

Seller's warranty shall apply only if (i) Buyer promptly notifies Seller of the alleged defect upon discovery; (ii) Seller receives from Buyer written notice of the alleged defect within the warranty period; and (iii) Seller, in its sole judgment, determines that the product is covered by its warranty. Seller shall have the option of requiring Buyer, at Buyer's sole risk and expense, to return the alleged defective part or product to Seller for inspection. If Seller determines that the part or product is covered by its warranty, Buyer, at Seller's request, shall return such part or product F.O.B. to Seller's designated plant. As the exclusive remedy under its warranty, Seller will, at his option and expense, repair or replace the defective part or product. Buyer shall pay all removal, installation and transportation costs incurred in effecting performance of Seller's warranty, and Seller shall be responsible only for the cost of repairing or replacing the defective part or product.

Seller's warranty does not apply to goods purchased for personal, family or household purposes, and Seller's warranty does not apply where (i) the part or product has been improperly installed, operated, maintained, altered or serviced or (ii) the part or product has been damaged in shipment or otherwise damaged without fault of Seller.

DISCLAIMER OF OTHER WARRANTIES: SELLER MAKES NO WARRANTY, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, OTHER THAN THE EXPRESS WARRANTY STATED OR DESCRIBED ABOVE. THERE ARE NO WARRANTIES, WHICH EXTEND BEYOND THE DESCRIPTION ON THE FACE HEREOF. USED AND SECONDHAND PARTS OR PRODUCTS ARE SOLD AS IS AND WITHOUT ANY WARRANTY, EXPRESS OR IMPLIED.

EXCULPATION AND INDEMNIFICATION: Seller shall not be liable to Buyer for, and buyer agrees that it will indemnify and hold and save Seller harmless from and against any and all loss, liability, cost or expense (including reasonable attorney fees) suffered by, recovered from or asserted against Seller on account of injury or damage to person or property to the extent that any such damage or injury may be incident to arise out of or be caused, either proximately or remotely, wholly or in part, by an act or omission on the part of Buyer or any of its agents, servants, employees, contractors, patrons, guests, licensees or invitees. To the extent that such indemnity obligation is limited or inapplicable, the law of contribution shall apply.

CANCELLATION, SOLVENCY AND DEFAULT: No goods may be returned to Seller for credit or refund without prior written approval of Seller. Any order received by Seller may be cancelled by Buyer, either in whole or in part, only upon written notice to Seller and payment of Seller's cancellation charges. Seller's cancellation charges will be determined solely by Seller. At Buyer's request, Seller will furnish a statement of such charges to Buyer prior to cancellation, but neither this provision nor the determination of Seller's cancellation charges will constitute a waiver or relinquishment by Seller of its other rights and remedies granted hereunder or by law. Buyer hereby represents to Seller that Buyer is solvent. If Buyer defaults in the performance of any of its obligations hereunder or in the event of Buyer's bankruptcy or insolvency, the full purchase price shall immediately become due and payable upon demand by Seller, or Seller may, at its option, with prejudice to any other legal remedy, cancel the order and recover its cancellation charges from Buyer, including all incidental and consequential damages resulting from Buyer's default or breach. Buyer agrees to pay all costs incurred by Seller, including reasonable attorney fees and expenses and court costs, to collect sums owed to Seller or to enforce any of Buyer's obligations created hereunder. Texas law shall be applicable to all matters related to the enforcement and interpretation of this contract.

FORCE MAJEURE: Seller shall not be liable for any default hereunder or for any suspension of or delay in delivery due to any Force Majeure condition or any other causes beyond Seller's control. If, because of any such circumstances, Seller is unable to supply the total demand for goods, Seller may allocate its available supply among itself and all of its customers in an equitable manner. If delivery of the goods sold hereunder to the point of shipment is delayed by more than ninety days beyond the scheduled shipping date because of any of the circumstances described above, then either Buyer or seller, upon thirty days written notice to the other, may cancel the undelivered portion of the order whereupon Buyer shall pay to Seller all costs incurred by Seller in filling the order and a reasonable allowance for overhead and profit.

MODIFICATION, WAIVER AND ASSIGNMENT: The terms and conditions of sale set forth herein, and all other documents attached hereto and incorporated herein by reference, constitute the entire agreement between Seller and Buyer. No modification, amendment, expansion or deletion of any of these terms and conditions, including the warranty provisions, shall be binding upon Seller unless specifically agreed to in writing by Seller. Any assignment of rights or delegation of duties hereunder by Buyer without the prior written consent of Seller shall be void.