NATURAL GAS SERVICES GROUP INC
Form 10-Q
November 06, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
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.)

508 W. Wall St., Ste 550
Midland, Texas 79701
(Address of principal executive offices)
(432) 262-2700
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

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

Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	November 4, 2015
Common Stock, $0.01 par value	12,745,999

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Part II - OTHER INFORMATION

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements
NATURAL GAS SERVICES GROUP, INC.
CONDENSED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$29,978	$6,181
Trade accounts receivable, net of allowance for doubtful accounts of $845 and $507, respectively	7,557	10,408
Inventory, net	28,085	32,624
Prepaid income taxes	3,776	6,242
Prepaid expenses and other	553	472
Total current assets	69,949	55,927
Rental equipment, net of accumulated depreciation of $108,229 and $106,179, respectively	196,951	208,292
Property and equipment, net of accumulated depreciation of $11,164 and $10,830, respectively	8,875	7,362
Goodwill	10,039	10,039
Intangibles, net of accumulated amortization of $1,351 and $1,257, respectively	1,808	1,902
Other assets	60	41
Total assets	$287,682	$283,563
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$1,459	$4,990
Accrued liabilities	2,950	6,624
Current income tax liability	6,328	851
Deferred income	989	1,635
Total current liabilities	11,726	14,100
Line of credit, non-current portion	417	417
Deferred income tax liability	55,675	58,304
Other long-term liabilities	135	155
Total liabilities	67,953	72,976
Commitments and contingencies (Note 8)		
Stockholders' Equity:		
Preferred stock, 5,000 shares authorized, no shares issued or outstanding	—	—
Common stock, 30,000 shares authorized, par value $0.01; 12,597 and 12,466 shares issued and outstanding, respectively	126	124
Additional paid-in capital	97,335	95,065
Retained earnings	122,268	115,398
Total stockholders' equity	219,729	210,587
Total liabilities and stockholders' equity	$287,682	$283,563

See accompanying notes to these unaudited condensed financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue:				
Rental income	$18,491	$20,177	$58,806	$58,431
Sales, net	2,468	5,218	10,672	10,831
Service and maintenance income	234	204	686	611
Total revenue	21,193	25,599	70,164	69,873
Operating costs and expenses:				
Cost of rentals, exclusive of depreciation stated separately below	7,327	8,110	22,062	23,815
Cost of sales, exclusive of depreciation stated separately below	1,740	3,493	7,706	6,826
Cost of service and maintenance, exclusive of depreciation and amortization stated separately below	70	101	151	269
Loss on retirement of rental equipment	(3)	—	4,370	—
Selling, general, and administrative expense	2,667	2,527	8,131	7,860
Depreciation and amortization	5,594	5,528	17,240	15,816
Total operating costs and expenses	17,395	19,759	59,660	54,586
Operating income	3,798	5,840	10,504	15,287
Other income (expense):				
Interest expense	(7)	(4)	(13)	(9)
Other income	20	131	67	183
Total other income, net	13	127	54	174
Income before provision for income taxes	3,811	5,967	10,558	15,461
Provision for income taxes	1,249	2,084	3,688	5,337
Net income	$2,562	$3,883	$6,870	$10,124
Earnings per share:				
Basic	$0.20	$0.31	$0.55	$0.81
Diluted	$0.20	$0.30	$0.54	$0.80
Weighted average shares outstanding:				
Basic	12,586	12,461	12,557	12,424
Diluted	12,801	12,740	12,783	12,728

See accompanying notes to these unaudited condensed financial statements.

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

	Nine months ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$6,870	$10,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,240	15,816
Deferred income taxes	(2,629)	(226)
Stock based compensation	2,616	2,438
Bad debt allowance	402	—
Inventory allowance	70	395
Gain on sale of assets	(81)	(159)
Loss on retirement of rental equipment	4,370	—
Changes in current assets and liabilities:		
Trade accounts receivables	2,449	(2,762)
Inventory	3,912	(4,895)
Prepaid expenses	2,287	(3,024)
Accounts payable and accrued liabilities	(7,107)	2,785
Current income tax liability	5,086	5,290
Deferred income	(646)	1,140
Other	(19)	(11)
Tax benefit from equity compensation	—	(414)
NET CASH PROVIDED BY OPERATING ACTIVITIES	34,820	26,497
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(11,163)	(46,388)
Proceeds from sale of property and equipment	113	239
NET CASH USED IN INVESTING ACTIVITIES	(11,050)	(46,149)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments from other long-term liabilities, net	(20)	(33)
Repayments of line of credit, net	—	(160)
Proceeds from exercise of stock options	733	61
Taxes paid related to net share settlement of equity awards	(686)	—
Tax benefit from equity compensation	—	414
NET CASH PROVIDED BY FINANCING ACTIVITIES	27	282
NET CHANGE IN CASH AND CASH EQUIVALENTS	23,797	(19,370)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,181	24,443
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$29,978	$5,073
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$13	$9
Income taxes paid	$3,185	$4,968
NON-CASH TRANSACTIONS		
Transfer of rental equipment components to inventory	$1,065	$—
Transfer from inventory to property and equipment	$1,622	$53

See accompanying notes to these unaudited condensed financial statements.

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

(1) Basis of Presentation and Summary of Significant Accounting Policies

These notes apply to the unaudited condensed financial statements of Natural Gas Services Group, Inc. a Colorado corporation (the "Company", “NGSG”, "Natural Gas Services Group", "we" or "our").

The accompanying unaudited condensed financial statements include all adjustments, consisting of only normal recurring adjustments, which are necessary to make our financial position at September 30, 2015 and the results of our operations for the three months and nine months ended September 30, 2015 and 2014 not misleading. As permitted by the rules and regulations of the Securities and Exchange Commission (SEC), the accompanying condensed 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 financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 on file with the SEC. In our opinion, the condensed financial statements are a fair presentation of the financial position, results of operations and cash flows for the periods presented.

The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2015.

Revenue Recognition

Revenue from the sales of custom and fabricated compressors, and flare systems is recognized upon shipment of the equipment to customers or when all conditions have been met and title is transferred to the customer. Exchange and rebuild compressor revenue is recognized when both the replacement compressor has been delivered and the rebuild assessment has been completed. Revenue from compressor services is recognized upon providing services to the customer. Maintenance agreement revenue is recognized as services are rendered. Rental revenue is recognized over the terms of the respective rental agreements based upon the classification of the rental agreement. Deferred income represents payments received before a product is shipped. Revenue from the sale of rental units is included in sales revenue when equipment is shipped or title is transferred to the customer.

Fair Value of Financial Instruments

Our financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable and our line of credit. Pursuant to ASC 820 (Accounting Standards Codification), the fair value of our cash equivalents is determined based on “Level 1” inputs, which consist of quoted prices in active markets for identical assets. We believe that the recorded values of all of our other financial instruments approximate their fair values because of their nature and relatively short maturity dates or durations.

Recently Issued Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), as part of a joint project with the International Accounting Standards Board (IASB) to clarify revenue-recognizing principles and develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS). ASU No. 2014-09 finalizes Proposed ASU Nos. 1820-100, 2011-230 and 2011-250 and is expected, among other things, to remove inconsistencies and weaknesses in revenue requirements and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. In particular, the amendments in this ASU will be added to the FASB Accounting Standards Codification (FASB ASC) as Topic 606, Revenue from Contracts with Customers, and will supersede the revenue recognition requirements in FASB ASC 605, Revenue Recognition, as well as some cost guidance in FASB ASC Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, the guidance provides that an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligation in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. On July 9, 2015, the FASB approved the deferral of the effective date of ASU No. 2014-09, by one year. For public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and early application is prohibited. Additionally, an entity should apply the amendments either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects the latter, transition method, then it must also provide the additional disclosures in reporting periods that include the date of initial application of (1) the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and (2) an explanation of the reasons for significant changes. The new standard will be effective during our first quarter ending March 31, 2018. We are currently evaluating the new standard to determine which reporting option allows us to report the most meaningful information and are still evaluating the potential impact this new standard may have on our financial statements.

On July 22, 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory (Topic 330), which finalizes Proposed ASU No. 2014-210 of the same name, and responds to stakeholders' concerns that the guidance regarding the measurement of inventory is unnecessarily complex because there are several potential outcomes. In particular, the amendments in this ASU will be added to the FASB ASC under Topic 330, Inventory. The core principle of this ASU is that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, retirement, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out (LIFO) or the retail inventory method. The amendments more closely align the measurement of inventory in GAAP with the measurement of inventory in IFRS. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The new standard will be effective during our first quarter ending March 31, 2017. We are currently evaluating the potential impact this new standard may have on our financial statements.

(2) Stock-Based Compensation

Stock Options:

A summary of option activity under our 1998 Stock Option Plan as of December 31, 2014, and changes during the nine months ended September 30, 2015 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, 2014	432,269	$17.55	10.10	$2,786
Granted	50,000	22.90		
Exercised	(63,500)	11.56		
Canceled/Forfeited	(1,500)	30.41		
Outstanding, September 30, 2015	417,269	$19.06	5.31	$954
Exercisable, September 30, 2015	313,766	$17.10	4.12	$947

The following table summarizes information about our stock options outstanding at September 30, 2015:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$0.01-15.70	94,852	3.48	$11.23	94,852	$11.23
$15.71-17.81	95,250	3.93	17.55	95,250	17.55
$17.82-20.48	119,667	4.52	19.58	106,167	19.69
$20.49-33.36	107,500	9.00	26.72	17,497	30.69
	417,269	5.31	$19.06	313,766	$17.10

The summary of the status of our unvested stock options as of December 31, 2014 and changes during the nine months ended September 30, 2015 is presented below.

Unvested stock options:	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2014	91,834	$14.19
Granted	50,000	10.33
Vested	(36,831)	13.12
Canceled/Forfeited	(1,500)	16.79
Unvested at September 30, 2015	103,503	$12.66

As of September 30, 2015, there was $868,663 of unrecognized compensation cost related to unvested options. Such cost is expected to be recognized over a weighted-average period of 1.8 years. Total compensation expense for stock options was $429,925 and $297,522 for the nine months ended September 30, 2015 and 2014, respectively.

Restricted Stock:

In accordance with the Company's employment agreement with Stephen Taylor, the Company's Chief Executive Officer, the Compensation Committee reviewed his performance in determining the issuance of restricted common stock. Based on this review which included consideration of the Company's 2014 performance, Mr. Taylor, was awarded 83,590 restricted shares on January 16, 2015, which vest one year from the date of grant. On March 19, 2015, the Compensation Committee awarded 20,000 shares of restricted common stock to each of G. Larry Lawrence, our CFO, and James Hazlett, our Vice President of Technical Services. The restricted shares to Messrs. Hazlett and Lawrence vest one year from the grant date. We also awarded and issued 21,968 shares of restricted common stock to our Board of Directors as partial payment for 2015 directors' fees. The restricted stock issued to our directors vests over one year, in quarterly installments, beginning March 31, 2016. Total compensation expense related to restricted stock awards was $2,186,330 and $2,140,233 for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015, there was a total of $1,211,952 of unrecognized compensation expense related to these shares which is expected to be recognized over the next fifteen months.

(3) Inventory

Our inventory, net of allowance for obsolescence of $295,500 and $225,000 at September 30, 2015 and December 31, 2014, respectively, consisted of the following amounts:

	September 30, 2015	December 31, 2014
	(in thousands)	
Raw materials	$23,606	$25,984
Work in process	4,479	6,640
	$28,085	$32,624

During the nine months ended September 30, 2015 and 2014, there were no write-offs of obsolete inventory against the allowance for obsolescence.

(4) Retirement of Long-Lived Assets

As a result of a decline in market conditions during the first half of 2015, management reviewed our rental compressor units that were not of the type, configuration, make or model that our customers were demanding or that were not cost efficient to refurbish, maintain and operate. As a result of that review, we determined that 258 units representing total horsepower of 32,259 should be retired from our rental fleet with key components from those units being re-utilized in future unit builds and/or repairs. We performed an optimization review and recorded a $4.4 million loss on the retirement of rental equipment to reduce the book value of each unit to the estimated fair value of approximately $967,000 for the key components being kept. The retirement is recorded in the condensed income statement under loss on retirement of rental equipment.

(5) Credit Facility

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

Borrowing Base. At any time before the maturity of the Amended Credit Agreement, we may draw, repay and re-borrow amounts available under the borrowing base up to the maximum aggregate availability discussed above. Generally, the borrowing base equals the sum of (a) 80% of our eligible accounts receivable plus (b) 50% of the book value of our eligible general inventory (not to exceed 50% of the commitment amount at the time) plus (c) 75% of the book value of our eligible equipment inventory. The Lender may adjust the borrowing base components if material deviations in the collateral are discovered in future audits of the collateral. We had $29.5 million borrowing base availability at September 30, 2015 under the terms of our Amended Credit Agreement.

Interest and Fees. Under the terms of the Amended Credit Agreement, we have the option of selecting the applicable variable rate for each revolving loan, or portion thereof, of either (a) LIBOR multiplied by the Statutory Reserve Rate (as defined in the Amended Credit Agreement), with respect to this rate, for Eurocurrency funding, plus the Applicable Margin ("LIBOR-based"), or (b) CB Floating Rate, which is the Lender's Prime Rate less the Applicable Margin; provided, however, that no more than three LIBOR-based borrowings under the agreement may be outstanding at any one time. For purposes of the LIBOR-based interest rate, the Applicable Margin is 1.50%. For purposes of the CB Floating Rate, the Applicable Margin is 1.50%. For the nine month period ended September 30, 2015, our weighted average interest rate was 1.45%.

Accrued interest is payable monthly on outstanding principal amounts, provided that accrued interest on LIBOR-based loans is payable at the end of each interest period, but in no event less frequently than quarterly. In addition, fees and expenses are payable in connection with our requests for letters of credit (generally equal to the Applicable Margin for LIBOR-related borrowings multiplied by the face amount of the requested letter of credit) and administrative and legal costs.

Maturity . The maturity date of the Amended Credit Agreement is December 31, 2017, at which time all amounts borrowed under the agreement will be due and outstanding letters of credit must be cash collateralized. The agreement may be terminated early upon our request or the occurrence of an event of default.

Security. The obligations under the Amended Credit Agreement are secured by a first priority lien on all of our inventory and accounts and leases receivables, along with a first priority lien on a variable number of our leased compressor equipment the book value of which must be maintained at a minimum of 2.00 to 1.00 commitment coverage ratio (such ratio being equal to (i) the amount of the borrowing base as of such date to (ii) the amount of the commitment as of such date.)

Covenants. The Amended Credit Agreement contains customary representations and warranties, as well as covenants which, among other things, limit our ability to incur additional indebtedness and liens; enter into transactions with affiliates; make acquisitions in excess of certain amounts; pay dividends; redeem or repurchase capital stock or senior notes; make investments or loans; make negative pledges; consolidate, merge or effect asset sales; or change the nature of our business. In addition, we also have certain financial covenants that require us to maintain on a consolidated basis a leverage ratio less than or equal to 2.50 to 1.00 as of the last day of each fiscal quarter.

Events of Default and Acceleration. The Amended Credit Agreement contains customary events of default for credit facilities of this size and type, and includes, without limitation, payment defaults; defaults in performance of covenants or other agreements contained in the loan documents; inaccuracies in representations and warranties; certain defaults, termination events or similar events; certain defaults with respect to any other Company indebtedness in excess of $50,000; certain bankruptcy or insolvency events; the rendering of certain judgments in excess of $150,000; certain ERISA events; certain change in control events and the defectiveness of any liens under the secured revolving credit facility. Obligations under the Amended Credit Agreement may be accelerated upon the occurrence of an event of default.

As of September 30, 2015, we were in compliance with all covenants in our Amended Credit Agreement. A default under our Credit Agreement could trigger the acceleration of our bank debt so that it is immediately due and payable. Such default would likely limit our ability to access other credit. At September 30, 2015 and December 31, 2014 our outstanding balance on the line of credit was $417,000.

(6) Earnings per Share

The following table reconciles the numerators and denominators of the basic and diluted earnings per share computation(in thousands, except per share data).

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income	$2,562	$3,883	$6,870	$10,124
Denominator for basic net income per common share:				
Weighted average common shares outstanding	12,586	12,461	12,557	12,424
Denominator for diluted net income per share:				
Weighted average common shares outstanding	12,586	12,461	12,557	12,424
Dilutive effect of stock options and restricted stock	215	279	226	304
Diluted weighted average shares	12,801	12,740	12,783	12,728
Earnings per common share:				
Basic	$0.20	$0.31	$0.55	$0.81
Diluted	$0.20	$0.30	$0.54	$0.80

In the three and nine months ended September 30, 2015, options to purchase 107,500 shares of common stock with exercise prices ranging from $22.90 to $33.36 were not included in the computation of dilutive income per share, due to their antidilutive effect.
In the three and nine months ended September 30, 2014, options to purchase 55,000 shares of common stock with exercise prices ranging from $30.41 to $33.36 were not included in the computation of dilutive income per share, due to their antidilutive effect.

(7) Segment Information

ASC 280-10-50, “Operating Segments", defines the characteristics of an operating segment as a) being engaged in business activity from which it may earn revenue and incur expenses, b) being reviewed by the company's chief operating decision maker (CODM) for decisions about resources to be allocated and assess its performance and c) having discrete financial information. Although we indeed look at our products to analyze the nature of our revenue, other financial information, such as certain costs and expenses, net income and EBITDA are not captured or analyzed by these categories. Our CODM does not make resource allocation decisions or access the performance of the business based on these categories, but rather in the aggregate. Based on this, management believes that it operates in one business segment.

In their analysis of product lines as potential operating segments, management also considered ASC 280-10-50-11, “Aggregation Criteria”, which allows for the aggregation of operating segments if the segments have similar economic characteristics and if the segments are similar in each of the following areas:

- The nature of the products and services;
- The nature of the production processes;
- The type or class of customer for their products and services;
- The methods used to distribute their products or provide their services; and
- The nature of the regulatory environment, if applicable.

We are engaged in the business of designing and manufacturing compressors and flares. Our compressors and flares are sold and rented to our customers. In addition, we provide service and maintenance on compressors in our fleet and to third parties. These business activities are similar in all geographic areas. Our manufacturing process is essentially the same for the entire Company and is performed in-house at our facilities in Midland, Texas and Tulsa, Oklahoma. Our customers primarily consist of entities in the business of producing natural gas and crude oil. The maintenance and service of our products is consistent across the entire Company and is performed via an internal fleet of vehicles. The regulatory environment is similar in every jurisdiction in that the most impacting regulations and practices are the result of federal energy policy. In addition, the economic characteristics of each customer arrangement are similar in that we maintain policies at the corporate level.

For the three months ended September 30, 2015 (in thousands):

	Rental	Sales	Service & Maintenance	Retirement of Rental Equipment	Corporate	Total
Revenue	$18,491	$2,468	$234	$—	$—	$21,193
Operating costs and expenses	7,327	1,740	70	(3)	8,261	17,395
Other income, net	—	—	—	—	13	13
Income before provision for income taxes	$11,164	$728				