

HUDSON TECHNOLOGIES INC /NY  
Form 10-Q  
November 10, 2015

**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, 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 1-13412

**Hudson Technologies, Inc.**

(Exact name of registrant as specified in its charter)

**New York**

**13-3641539**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**1 Blue Hill Plaza  
P.O. Box 1541**

**10965**

**Pearl River, New York**

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code **(845) 735-6000**

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. **x Yes** " No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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.)

**x 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" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

" Accelerated filer "

Non-accelerated filer (do not check if a smaller reporting company) " Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). " Yes x No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

<u>Common stock, \$0.01 par value</u>	<u>32,686,196 shares</u>
<b>Class</b>	<b>Outstanding at November 5, 2015</b>

**Hudson Technologies, Inc.**

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## Part I – FINANCIAL INFORMATION

**Item 1-Financial Statements****Hudson Technologies, Inc. and subsidiaries****Consolidated Balance Sheets**

(Amounts in thousands, except for share and par value amounts)

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,040	\$ 935
Trade accounts receivable - net	9,614	3,968
Inventories	48,964	37,017
Deferred tax asset	397	397
Prepaid expenses and other current assets	5,484	1,011
Total current assets	65,499	43,328
Property, plant and equipment, less accumulated depreciation	7,518	7,887
Other assets	83	102
Deferred tax asset	2,609	6,031
Goodwill	2,603	265
Intangible assets, less accumulated amortization	3,379	2,322
Total Assets	\$ 81,691	\$ 59,935
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 10,257	\$ 4,510
Accrued payroll	241	384
Short-term debt and current maturities of long-term debt	14,983	6,320
Total current liabilities	25,481	11,214
Other liabilities	1,502	333
Long-term debt, less current maturities	4,377	4,389
Total Liabilities	31,360	15,936
Commitments and contingencies		

Stockholders' equity:

Preferred stock, shares authorized 5,000,000:

Series A convertible preferred stock, \$0.01 par value (\$100 liquidation preference value); shares authorized 150,000; none issued or outstanding

0 0

Common stock, \$0.01 par value; shares authorized 100,000,000; issued and outstanding 32,676,196 and 32,312,276

327 323

Additional paid-in capital

62,047 61,505

Accumulated deficit

(12,043 ) (17,829 )

Total Stockholders' Equity

50,331 43,999

Total Liabilities and Stockholders' Equity

\$ 81,691 \$ 59,935

*See Accompanying Notes to the Consolidated Financial Statements.*

**Hudson Technologies, Inc. and subsidiaries****Consolidated Statements of Operations****(unaudited)**

(Amounts in thousands, except for share and per share amounts)

	<b>Three month period</b>		<b>Nine month period</b>	
	<b>ended September 30,</b>		<b>ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Revenues	\$21,682	\$15,296	\$72,422	\$47,755
Cost of sales	17,298	13,801	55,301	42,255
Gross profit	4,384	1,495	17,121	5,500
Operating expenses:				
Selling and marketing	958	630	2,972	1,894
General and administrative	1,524	992	4,216	2,609
Total operating expenses	2,482	1,622	7,188	4,503
Operating income (loss)	1,902	(127 )	9,933	997
Interest expense	(157 )	(99 )	(600 )	(494 )
Income (loss) before income taxes	1,745	(226 )	9,333	503
Income tax expense (benefit)	663	(118 )	3,547	143
Net income (loss)	\$1,082	\$(108 )	\$5,786	\$360
Net income (loss) per common share - Basic	\$0.03	\$0.00	\$0.18	\$0.01
Net income (loss) per common share - Diluted	\$0.03	\$0.00	\$0.17	\$0.01
Weighted average number of shares outstanding - Basic	32,639,429	32,031,426	32,487,230	28,179,853
Weighted average number of shares outstanding - Diluted	33,856,045	32,031,426	34,071,982	29,839,975

*See Accompanying Notes to the Consolidated Financial Statements.*

**Hudson Technologies, Inc. and subsidiaries****Consolidated Statements of Cash Flows****Increase (Decrease) in Cash and Cash Equivalents****(unaudited)**

(Amounts in thousands)

	<b>Nine month period ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Net income	\$ 5,786	\$ 360
Adjustments to reconcile net income to cash (used) provided by operating activities:		
Depreciation and amortization	1,622	626
Allowance for doubtful accounts	48	48
Value of share-based payment arrangements	162	29
Amortization of deferred finance costs	69	81
Utilization of deferred tax asset	3,422	193
Changes in assets and liabilities (net of acquisition):		
Trade accounts receivable	(5,694 )	(5,378 )
Inventories	(10,497 )	6,314
Income taxes receivable	0	2,709
Prepaid and other assets	(4,521 )	(4,355 )
Accounts payable and accrued expenses	4,104	4,027
Cash (used) provided by operating activities	(5,499 )	4,654
Cash flows from investing activities:		
Asset acquisitions	(2,424 )	0
Additions to patents	(7 )	(10 )
Additions to property, plant, and equipment	(647 )	(534 )
Investment in affiliates	0	63
Cash used by investing activities	(3,078 )	(481 )
Cash flows from financing activities:		
Proceeds from issuance of common stock	384	15,639
Proceeds from (repayments of) short-term debt – net	8,580	(15,080 )
Proceeds from long-term debt	292	0
Repayment of long-term debt	(243 )	(4,228 )
Payment of deferred acquisition cost	(331 )	0



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Cash provided (used) by financing activities	8,682	(3,669 )
Increase in cash and cash equivalents	105	504
Cash and cash equivalents at beginning of period	935	669
Cash and cash equivalents at end of period	\$ 1,040	\$ 1,173
Supplemental Disclosure of Cash Flow Information:		
Cash paid during period for interest	\$ 531	\$ 413
Non cash investing activity:		
Deferred acquisition cost	\$ 2,669	\$ 0

*See Accompanying Notes to the Consolidated Financial Statements.*

**Hudson Technologies, Inc. and subsidiaries**

**Notes to the Consolidated Financial Statements**

Note 1 - Summary of significant accounting policies

Business

Hudson Technologies, Inc., incorporated under the laws of New York on January 11, 1991, is a refrigerant services company providing innovative solutions to recurring problems within the refrigeration industry. The Company's products and services are primarily used in commercial air conditioning, industrial processing and refrigeration systems, including (i) refrigerant sales, (ii) refrigerant management services consisting primarily of reclamation of refrigerants and (iii) RefrigerantSide® Services performed at a customer's site, consisting of system decontamination to remove moisture, oils and other contaminants. In addition, RefrigerantSide® Services include predictive and diagnostic services for industrial and commercial refrigeration applications, which are designed to predict potential catastrophic problems and identify inefficiencies in an operating system. The Company's SmartEnergy OPS™ service is a web-based real time continuous monitoring service applicable to a facility's refrigeration systems and other energy systems. The Company's Chiller Chemistry®, Chill Smart®, Fluid Chemistry®, and Performance Optimization are predictive and diagnostic service offerings. As a component of the Company's products and services, the Company also participates in the generation of carbon offset projects. The Company operates principally through its wholly-owned subsidiary, Hudson Technologies Company. Unless the context requires otherwise, references to the "Company", "Hudson", "we", "us", "our", or similar pronouns refer to Hudson Technologies, Inc. and its subsidiaries.

In preparing the accompanying consolidated financial statements, and in accordance with ASC 855-10 "Subsequent Events", the Company's management has evaluated subsequent events through the date that the financial statements were filed.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial information included in this quarterly report should be read in conjunction with the Company's audited financial statements and related notes thereto for the year ended December 31, 2014. Operating results for the nine month period ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

In the opinion of management, all estimates and adjustments considered necessary for a fair presentation have been included and all such adjustments were normal and recurring.

#### Consolidation

The consolidated financial statements represent all companies of which Hudson directly or indirectly has majority ownership or otherwise controls. Significant intercompany accounts and transactions have been eliminated. The Company's consolidated financial statements include the accounts of wholly-owned subsidiaries Hudson Holdings, Inc. and Hudson Technologies Company. The Company does not present a statement of comprehensive income as its comprehensive income is not materially different than its net income.

#### Fair Value of Financial Instruments

The carrying values of financial instruments including trade accounts receivable and accounts payable approximate fair value at September 30, 2015 and December 31, 2014, because of the relatively short maturity of these instruments. The carrying value of short and long-term debt approximates fair value, due to the variable rate nature of the debt as of September 30, 2015 and December 31, 2014.

#### Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of temporary cash investments and trade accounts receivable. The Company maintains its temporary cash investments in highly-rated financial institutions and, at times, the balances exceed FDIC insurance coverage. The Company's trade accounts receivable are primarily due from companies throughout the United States. The Company reviews each customer's credit history before extending credit.

The Company establishes an allowance for doubtful accounts based on factors associated with the credit risk of specific accounts, historical trends, and other information. The carrying value of the Company's accounts receivable is reduced by the established allowance for doubtful accounts. The allowance for doubtful accounts includes any accounts receivable balances that are determined to be uncollectible, along with a general reserve for the remaining accounts receivable balances. The Company adjusts its reserves based on factors that affect the collectability of the accounts receivable balances.

For the nine month period ended September 30, 2015, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 34% of the Company's revenues. At September 30, 2015, there were \$1,100,000 in outstanding receivables from these customers.

For the nine month period ended September 30, 2014, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 26% of the Company's revenues. At September 30, 2014, there were \$2,004,000 in outstanding receivables from these customers.

The loss of a principal customer or a decline in the economic prospects of and/or a reduction in purchases of the Company's products or services by any such customer could have a material adverse effect on the Company's operating results and financial position.

#### Cash and Cash Equivalents

Temporary investments with original maturities of ninety days or less are included in cash and cash equivalents.

#### Inventories

Inventories, consisting primarily of refrigerant products available for sale, are stated at the lower of cost, on a first-in first-out basis, or market. Where the market price of inventory is less than the related cost, the Company may be required to write down its inventory through a lower of cost or market adjustment, the impact of which would be reflected in cost of sales on the Consolidated Statements of Operations. Any such adjustment would be based on management's judgment regarding future demand and market conditions and analysis of historical experience.

#### Property, Plant and Equipment

Property, plant and equipment are stated at cost, including internally manufactured equipment. The cost to complete equipment that is under construction is not considered to be material to the Company's financial position. Provision for depreciation is recorded (for financial reporting purposes) using the straight-line method over the useful lives of the respective assets. Leasehold improvements are amortized on a straight-line basis over the shorter of economic life or terms of the respective leases. Costs of maintenance and repairs are charged to expense when incurred.

Due to the specialized nature of the Company's business, it is possible that the Company's estimates of equipment useful life periods may change in the future.

## Revenues and Cost of Sales

Revenues are recorded upon completion of service or product shipment and passage of title to customers in accordance with contractual terms. The Company evaluates each sale to ensure collectability. In addition, each sale is based on an arrangement with the customer and the sales price to the customer is fixed. License fees are recognized over the period of the license based on the respective performance measurements associated with the license. Royalty revenues are recognized when earned. Cost of sales is recorded based on the cost of products shipped or services performed and related direct operating costs of the Company's facilities. To the extent that the Company charges its customers shipping fees, such amounts are included as a component of revenue and the corresponding costs are included as a component of cost of sales.

The Company's revenues are derived from refrigerant and reclamation sales and RefrigerantSide® Services, including license and royalty revenues. The revenues for each of these lines are as follows:

Nine Month Period Ended September 30,	2015	2014
(in thousands)		
Refrigerant and reclamation sales	\$69,032	\$44,011
RefrigerantSide® Services	3,390	3,744
Total	\$72,422	\$47,755

## Income Taxes

The Company utilizes the asset and liability method for recording deferred income taxes, which provides for the establishment of deferred tax asset or liability accounts based on the difference between tax and financial reporting bases of certain assets and liabilities. The tax benefit associated with the Company's net operating loss carry forwards ("NOLs") is recognized to the extent that the Company is expected to recognize future taxable income. The Company assesses the recoverability of its deferred tax assets based on its expectation that it will recognize future taxable income and adjusts its valuation allowance accordingly. As of September 30, 2015 and December 31, 2014, the net deferred tax asset was \$3,006,000 and \$6,428,000, respectively.

Certain states either do not allow or limit NOLs and as such the Company will be liable for certain state taxes. To the extent that the Company utilizes its NOLs, it will not pay tax on such income but may be subject to the federal alternative minimum tax. In addition, to the extent that the Company's net income, if any, exceeds the annual NOL limitation it will pay income taxes based on existing statutory rates. Moreover, as a result of a "change in control", as defined by the Internal Revenue Service, the Company's ability to utilize its existing NOLs is subject to certain annual limitations. Approximately \$6,700,000 of the Company's \$7,600,000 of NOLs are subject to annual limitations of \$1,300,000.

As a result of an Internal Revenue Service audit, the 2013 and prior federal tax years have been closed. The Company operates in many states throughout the United States and, as of September 30, 2015, the various states' statutes of limitations remain open for tax years subsequent to 2008. The Company recognizes interest and penalties, if any, relating to income taxes as a component of the provision for income taxes.

The Company evaluates uncertain tax positions, if any, by determining if it is more likely than not to be sustained upon examination by the taxing authorities. As of September 30, 2015 and December 31, 2014 the Company had no uncertain tax positions.

#### Income per Common and Equivalent Shares

If dilutive, common equivalent shares (common shares assuming exercise of options and warrants) utilizing the treasury stock method are considered in the presentation of diluted earnings per share. The reconciliation of shares used to determine net income per share is as follows (dollars in thousands, unaudited):

	<b>Three Month Period</b>		<b>Nine Month Period</b>	
	<b>ended September 30,</b>		<b>ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income (loss)	\$1,082	\$(108)	) \$5,786	\$360
Weighted average number of shares outstanding - basic	32,639,429	32,031,426	32,487,230	28,179,853
Shares underlying warrants	176,775	0	332,269	196,522
Shares underlying options	1,039,841	0	1,252,483	1,463,600
Weighted average number of shares outstanding - diluted	33,856,045	32,031,426	34,071,982	29,839,975

During the three month periods ended September 30, 2015 and 2014, certain options and warrants aggregating 1,196,343 and 3,676,661 shares, respectively, have been excluded from the calculation of diluted shares, due to the fact that their effect would be anti-dilutive.

During the nine month periods ended September 30, 2015 and 2014, certain options and warrants aggregating 75,000 and 80,843 shares, respectively, have been excluded from the calculation of diluted shares, due to the fact that their effect would be anti-dilutive.

#### Estimates and Risks

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect reported amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities, and the results of operations during the reporting period. Actual results could differ from these estimates.

The Company utilizes both internal and external sources to evaluate potential current and future liabilities for various commitments and contingencies. In the event that the assumptions or conditions change in the future, the estimates could differ from the original estimates.

Several of the Company's accounting policies involve significant judgments, uncertainties and estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. To the extent that actual results differ from management's judgments and estimates, there could be a material adverse effect on the Company. On a continuous basis, the Company evaluates its estimates, including, but not limited to, those estimates related to its allowance for doubtful accounts, inventory reserves, and valuation allowance for the deferred tax assets relating to its NOLs and commitments and contingencies. With respect to accounts receivable, the Company estimates the necessary allowance for doubtful accounts based on both historical and anticipated trends of payment history and the ability of the customer to fulfill its obligations. For inventory, the Company evaluates both current and anticipated sales prices of its products to determine if a write down of inventory to net realizable value is necessary. In determining the Company's valuation allowance for its deferred tax assets, the Company assesses its ability to generate taxable income in the future.

The Company participates in an industry that is highly regulated, and changes in the regulations affecting its business could affect its operating results. Currently the Company purchases virgin hydrochlorofluorocarbon (“HCFC”) and hydrofluorocarbon (“HFC”) refrigerants and reclaimable, primarily HCFC, HFC and chlorofluorocarbon (“CFC”), refrigerants from suppliers and its customers. Effective January 1, 1996, the Clean Air Act (the “Act”) prohibited the production of virgin CFC refrigerants and limited the production of virgin HCFC refrigerants. Effective January 2004, the Act further limited the production of virgin HCFC refrigerants and federal regulations were enacted which established production and consumption allowances for HCFC refrigerants which imposed limitations on the importation of certain virgin HCFC refrigerants. Under the Act, production of certain virgin HCFC refrigerants is scheduled to be phased out during the period 2010 through 2020, and production of all virgin HCFC refrigerants is scheduled to be phased out by 2030. As a result of litigation, the federal regulations implementing the January 2010 phase down schedule were vacated, and in April 2013, the Environmental Protection Agency (“EPA”) published a final rule providing for the production or importation of 63 million and 51 million pounds of HCFC-22 in 2013 and 2014, respectively. On October 16, 2014, the Administrator of the EPA signed a final rule providing further reductions in the production and consumption allowances for virgin HCFC refrigerants for the years 2015 through 2019 (the “Final Rule”). In the Final Rule, the EPA established a linear draw down for the production or importation of virgin HCFC-22 that starts at approximately 22 million pounds in 2015 and reduces by approximately 4.5 million pounds each year and ends at zero in 2020.

To the extent that the Company is unable to source sufficient quantities of refrigerants or is unable to obtain refrigerants on commercially reasonable terms or experiences a decline in demand and/or price for refrigerants sold by the Company, the Company could realize reductions in revenue from refrigerant sales, which could have a material adverse effect on its operating results and its financial position.

The Company is subject to various legal proceedings. The Company assesses the merit and potential liability associated with each of these proceedings. In addition, the Company estimates potential liability, if any, related to these matters. To the extent that these estimates are not accurate, or circumstances change in the future, the Company could realize liabilities, which could have a material adverse effect on its operating results and its financial position.

#### Impairment of Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell.



## Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The core principle of ASU 2014-09 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 that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations 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. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. For a public entity, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. An entity should apply the amendments in ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. We are currently evaluating the effects of ASU 2014-09 and therefore cannot estimate the effects, if any, on historical or future revenue recognition at this time.

In January 2015, the FASB issued ASU 2015-01, "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20) - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." ASU 2015-01 eliminates the concept of extraordinary items from generally accepted accounting principles. Under ASU 2015-01, the nature and financial effects of each event or transaction that is unusual in nature or occurs infrequently or both shall be presented as a separate component of income from continuing operations or, alternatively, disclosed in notes to the financial statements. The amendments in ASU 2015-01 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of ASU 2015-01 will not have a material impact on our results of operations or our financial position.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. For public business entities, the amendments in ASU 2015-03 are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted for financial statements that have not been previously issued. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (that is, debt issuance cost asset and the debt liability). The adoption of ASU 2015-03 will have no impact on our results of operations or our financial position.

In September 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, or ASU 2015-16. This amendment requires the acquirer in a business combination to recognize in the reporting period in which adjustment amounts are determined, any adjustments to provisional amounts that are identified during the measurement period, calculated as if the accounting had been completed at the acquisition date. Prior to the issuance of ASU 2015-16, an acquirer was required to restate prior period financial statements as of the acquisition date for adjustments to provisional amounts. The amendments in ASU 2015-16 are to be applied prospectively upon adoption. The adoption of the provisions of ASU 2015-16 is not expected to have a material impact on our results of operations or our financial position.

Note 2 - Share-based compensation

Share-based compensation represents the cost related to share-based awards, typically stock options or stock grants, granted to employees, non-employees, officers and directors. Share-based compensation is measured at grant date, based on the estimated aggregate fair value of the award on the grant date, and such amount is charged to compensation expense on a straight-line basis (net of estimated forfeitures) over the requisite service period. For the nine month periods ended September 30, 2015 and 2014, the share-based compensation expense of \$162,000 and \$29,000, respectively, is reflected in general and administrative expenses in the consolidated Statements of Operations.

Share-based awards have historically been made as stock options, and recently during the third quarter 2015 as stock grants, issued pursuant to the terms of the Company's stock option and stock incentive plans, (collectively, the "Plans"), described below. The Plans may be administered by the Board of Directors or the Compensation Committee of the Board or by another committee appointed by the Board from among its members as provided in the Plans. Presently, the Plans are administered by the Company's Compensation Committee of the Board of Directors. As of September 30, 2015, the Plans authorized the issuance of stock options to purchase 6,000,000 shares of the Company's common stock and, as of September 30, 2015 there were 4,306,523 shares of the Company's common stock available for issuance for future stock option grants or other stock based awards.

Stock option awards, which allow the recipient to purchase shares of the Company's common stock at a fixed price, are typically granted at an exercise price equal to the Company's stock price at the date of grant. Typically, the Company's stock option awards have vested from immediately to two years from the grant date and have had a contractual term ranging from three to ten years.

During the nine month periods ended September 30, 2015 and 2014, the Company issued options to purchase 164,506 shares and 10,000 shares, respectively. During the nine month periods ended September 30, 2015 and 2014, the Company issued stock grants of 9,827 shares and no shares, respectively. As of September 30, 2015, there was \$51,000 of unrecognized compensation cost related to non-vested previously granted option awards.

Effective July 25, 1997, the Company adopted its 1997 Employee Stock Option Plan, which was amended on August 19, 1999, (“1997 Plan”) pursuant to which 2,000,000 shares of common stock were reserved for issuance upon the exercise of options designated as either (i) incentive stock options (“ISOs”) under the Internal Revenue Code of 1986, as amended (the “Code”), or (ii) nonqualified options. ISOs could be granted under the 1997 Plan to employees and officers of the Company. Non-qualified options could be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights could also be issued in tandem with stock options. Effective June 11, 2007, the Company’s ability to grant options or stock appreciation rights under the 1997 Plan expired.

Effective September 10, 2004, the Company adopted its 2004 Stock Incentive Plan (“2004 Plan”) pursuant to which 2,500,000 shares of common stock were reserved for issuance (i) upon the exercise of options, designated as either ISOs under the Code or nonqualified options, or (ii) as stock, deferred stock or other stock-based awards. ISOs could be granted under the 2004 Plan to employees and officers of the Company. Non qualified options, stock, deferred stock or other stock-based awards could be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights could also be issued in tandem with stock options. Effective September 10, 2014, the Company’s ability to grant options or other awards under the 2004 Plan expired.

Effective August 27, 2008, the Company adopted its 2008 Stock Incentive Plan (“2008 Plan”) pursuant to which 3,000,000 shares of common stock were reserved for issuance (i) upon the exercise of options, designated as either ISOs under the Code or nonqualified options, or (ii) as stock, deferred stock or other stock-based awards. ISOs may be granted under the 2008 Plan to employees and officers of the Company. Non qualified options, stock, deferred stock or other stock-based awards may be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights may also be issued in tandem with stock options. Unless the 2008 Plan is sooner terminated, the ability to grant options or other awards under the 2008 Plan will expire on August 27, 2018.

ISOs granted under the 2008 Plan may not be granted at a price less than the fair market value of the common stock on the date of grant (or 110% of fair market value in the case of persons holding 10% or more of the voting stock of the Company). Nonqualified options granted under the 2008 Plan may not be granted at a price less than the fair market value of the common stock. Options granted under the 2008 Plan expire not more than ten years from the date of grant (five years in the case of ISOs granted to persons holding 10% or more of the voting stock of the Company).

Effective September 17, 2014, the Company adopted its 2014 Stock Incentive Plan (“2014 Plan”) pursuant to which 3,000,000 shares of common stock were reserved for issuance (i) upon the exercise of options, designated as either ISOs under the Code or nonqualified options, or (ii) as stock, deferred stock or other stock-based awards. ISOs may be granted under the 2014 Plan to employees and officers of the Company. Non qualified options, stock, deferred stock or other stock-based awards may be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights may also be issued in tandem with stock options. Unless the 2014 Plan is sooner terminated, the ability to grant options or other awards under the 2014 Plan will expire on

September 17, 2024.

ISOs granted under the 2014 Plan may not be granted at a price less than the fair market value of the common stock on the date of grant (or 110% of fair market value in the case of persons holding 10% or more of the voting stock of the Company). Nonqualified options granted under the 2014 Plan may not be granted at a price less than the fair market value of the common stock. Options granted under the 2014 Plan expire not more than ten years from the date of grant (five years in the case of ISOs granted to persons holding 10% or more of the voting stock of the Company).

All stock options have been granted to employees and non-employees at exercise prices equal to or in excess of the market value on the date of the grant.

The Company determines the fair value of stock option awards at the grant date by using the Black-Scholes option-pricing model, and is utilizing the simplified method to compute expected lives of share based awards with the following weighted-average assumptions:

Nine Month Period Ended September 30, Assumptions	2015	2014
Dividend yield	0%	0%
Risk free interest rate	.83%-1.03%	1.69%
Expected volatility	49%-60%	59%
Expected lives	3 years	5 years

A summary of the activity for the Company's Plans for the indicated periods is presented below:

Stock Option Plan Totals	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2013	<b>2,517,911</b>	\$ 1.33
-Exercised	(292,537 )	\$ 1.03
-Granted	1,055,500	\$ 3.28
Outstanding at December 31, 2014	3,280,874	\$ 1.98
-Exercised	(452,841 )	\$ 1.59
-Granted	164,506	\$ 3.28
Outstanding at September 30, 2015	2,992,539	\$ 2.11

The following is the weighted average contractual life in years and the weighted average exercise price at September 30, 2015 of:

	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Options outstanding	2,992,539	2.6 years	\$ 2.11
Options vested	2,925,039	2.6 years	\$ 2.07

The following is the intrinsic value at September 30, 2015 of:

Options outstanding	\$3,026,000
Options vested in 2015	\$9,000
Options exercised in 2015	\$1,043,000

The intrinsic value of options exercised during the year ended December 31, 2014 was \$793,000.

### Note 3 - Debt

#### *Bank Credit Line*

On June 22, 2012, a subsidiary of Hudson entered into a Revolving Credit, Term Loan and Security Agreement (the “PNC Facility”) with PNC Bank, National Association, as agent (“Agent” or “PNC”), and such other lenders as may thereafter become a party to the PNC Facility. Under the terms of the PNC Facility, as amended by the First Amendment to the PNC Facility, dated February 15, 2013, Hudson may borrow up to a maximum of \$40,000,000 consisting of a term loan in the principal amount of \$4,000,000 and revolving loans in a maximum amount up to \$36,000,000. Amounts borrowed under the PNC Facility may be used by Hudson for working capital needs and to reimburse drawings under letters of credit. Fees and expenses relating to the creation of the PNC Facility of approximately \$44,000 are being amortized over the life of the loan. At September 30, 2015, total borrowings under the PNC Facility were approximately \$18,600,000, and there was approximately \$14,200,000 available to borrow under the revolving line of credit. The effective interest rate under the PNC Facility was 3.75% at September 30, 2015.

Interest on loans under the PNC Facility is payable in arrears on the first day of each month with respect to loans bearing interest at the domestic rate (as set forth in the PNC Facility) and at the end of each interest period with respect to loans bearing interest at the Eurodollar Rate (as defined in the PNC Facility) or, for Eurodollar Rate Loans (as defined in the PNC Facility) with an interest period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar Rate Loan or (b) the end of the interest period. Interest charges with respect to loans are computed on the actual principal amount of loans outstanding during the month at a rate per annum equal to (A) with respect to Domestic Rate Loans (as defined in the PNC Facility), the sum of the Alternate Base Rate (as defined in the PNC Facility) plus one half of one percent (.50%) and (B) with respect to Eurodollar Rate Loans, the sum of the Eurodollar Rate plus two and one quarter of one percent (2.25%).

Hudson granted to PNC, for itself, and as agent for such other lenders as may thereafter become a lender under the PNC Facility, a security interest in Hudson’s receivables, intellectual property, general intangibles, inventory and certain other assets.

The PNC Facility contains certain financial and non-financial covenants relating to Hudson, including limitations on Hudson’s ability to pay dividends on common stock or preferred stock, and also includes certain events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other obligations, events of bankruptcy and insolvency, certain ERISA events, judgments in excess of specified amounts, impairments to guarantees and a change of control. The PNC Facility contains a financial covenant to maintain at all times a Fixed Charge Coverage Ratio of not less than 1.10 to 1.00, tested quarterly on a rolling twelve month basis. Fixed Charge Coverage Ratio is defined in the PNC Facility, with respect to any fiscal period, as the ratio of (a) EBITDA of Hudson for such period, minus unfinanced capital expenditures (as defined in the PNC Facility) made by Hudson during such period, minus the aggregate amount of cash taxes paid by Hudson during such period, minus the aggregate amount of dividends and distributions made by Hudson during such period, minus the aggregate amount of payments made with cash by Hudson to satisfy soil sampling and reclamation related to environmental cleanup at the Company’s former Hillburn, NY facility during such period (to the extent not already included in the calculation of EBITDA as determined by the Agent) to (b) the aggregate amount of all principal payments due and/or made, except principal payments related to outstanding revolving advances with regard to all funded debt (as defined in the PNC Facility) of Hudson during such period, plus the aggregate interest expense of Hudson during such period. EBITDA as defined in the PNC Facility shall mean for any period the sum of (i) earnings before interest and taxes for such period plus (ii) depreciation expenses for such period, plus (iii) amortization expenses for such period, plus (iv) non-cash

charges.



On October 25, 2013, the Company entered into the Second Amendment to the PNC Facility (the “Second PNC Amendment”) which, among other things, waived the requirement to comply with the minimum fixed charge coverage ratio covenant of 1.10 to 1.00 for the fiscal quarter ended September 30, 2013 under the PNC Facility and suspended the minimum fixed charge ratio covenant until the quarterly period ending March 31, 2015.

The Second PNC Amendment also redefined the “Revolving Interest Rate” as well as the “Term Loan Rate” (as defined in the PNC Facility) as follows:

“Revolving Interest Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate (as defined in the PNC Facility) plus one percent (1.00%) with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and three quarters of one percent (2.75%) with respect to the Eurodollar Rate Loans.

“Term Loan Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus one percent (1.00%) with respect to the Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and three quarters of one percent (2.75%) with respect to Eurodollar Rate Loans.

On July 2, 2014, the Company entered into the Third Amendment to the PNC Facility (the “Third PNC Amendment”) which, among other things, extended the term of PNC Facility. Pursuant to the Third PNC Amendment, which was effective June 30, 2014, the Termination Date of the PNC Facility (as defined in the PNC Facility) has been extended to June 30, 2018.

On July 1, 2015, the Company entered into the Fourth Amendment to the PNC Facility (the “Fourth PNC Amendment”). The Fourth PNC Amendment redefined the “Revolving Interest Rate” as well as the “Term Loan Rate” (as defined in the PNC Facility) as follows:

“Revolving Interest Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate (as defined in the PNC Facility) plus one half of one percent (.50%) with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and one quarter of one percent (2.25%) with respect to the Eurodollar Rate Loans.

“Term Loan Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus one half of one percent (.50%) with respect to the Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and one quarter of one percent (2.25%) with respect to Eurodollar Rate Loans.

The Company was in compliance with all covenants, as amended, under the PNC Facility as of September 30, 2015. The Company's ability to comply with these covenants in future quarters may be affected by events beyond the Company's control, including general economic conditions, weather conditions, regulations and refrigerant pricing. Although we expect to remain in compliance with all covenants in the PNC Facility, as amended, depending on our future operating performance and general economic conditions, we cannot make any assurance that we will continue to be in compliance.

The commitments under the PNC Facility will expire and the full outstanding principal amount of the loans, together with accrued and unpaid interest, are due and payable in full on June 30, 2018, unless the commitments are terminated for any reason or the outstanding principal amount of the loans are accelerated sooner following an event of default.

#### **Note 4 - Acquisitions**

On November 5, 2014 the Company purchased certain assets from Polar Technologies, LLC as disclosed in the Company's Form 10-K for the year ended December 31, 2014. The asset allocation reflected in the financial statements remains preliminary as of September 30, 2015.

On January 16, 2015, the Company acquired certain assets of a supplier of refrigerants and compressed gases, and also hired 3 employees associated with the business. The purchase price for this acquisition was \$2,424,000 cash paid at closing and the assumption of a liability of \$20,000, plus a maximum of an additional \$3,000,000 earn out, of which approximately \$331,000 has been paid out as of September 30, 2015. The remaining balance of \$2,669,000 is accrued on the consolidated balance sheet as of September 30, 2015. The valuation of the net assets acquired is preliminary and subject to change as the purchase price allocation is finalized. The preliminary asset allocation reflected in these financial statements is approximately \$1,606,000 of tangible assets, approximately \$1,500,000 of intangible assets, and approximately \$2,338,000 of goodwill. The intangible assets will be amortized over a period of 6 years. The goodwill recognized as part of the acquisition will be deductible for tax purposes. The transaction also provides for additional employee compensation for years 2017 through 2019, based on certain revenue performance. The total additional employee compensation, if any, cannot exceed \$3,000,000.

The results of the acquired business operations are included in the Company's consolidated Statements of Operations from the date of acquisition, and are not material to the Company's financial position or results of operations.

#### *Pro Forma Information*

Pro forma revenues and results of operations as if the businesses had been acquired on January 1, 2014 are not presented, as the acquisition is not material to our financial position or our results of operations.

## **Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations**

Certain statements, contained in this section and elsewhere in this Form 10-Q, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, changes in the laws and regulations affecting the industry, changes in the demand and price for refrigerants (including unfavorable market conditions adversely affecting the demand for, and the price of refrigerants), the Company's ability to source refrigerants, regulatory and economic factors, seasonality, competition, litigation, the nature of supplier or customer arrangements that become available to the Company in the future, adverse weather conditions, possible technological obsolescence of existing products and services, possible reduction in the carrying value of long-lived assets, estimates of the useful life of its assets, potential environmental liability, customer concentration, the ability to obtain financing, any delays or interruptions in bringing products and services to market, the timely availability of any requisite permits and authorizations from governmental entities and third parties as well as factors relating to doing business outside the United States, including changes in the laws, regulations, policies, and political, financial and economic conditions, including inflation, interest and currency exchange rates, of countries in which the Company may seek to conduct business, the Company's ability to successfully integrate any assets it acquires from third parties into its operations, and other risks detailed in the Company's Form 10-K for the year ended December 31, 2014 and in the Company's other subsequent filings with the Securities and Exchange Commission ("SEC"). The words "believe", "expect", "anticipate", "may", "plan", "should" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

### **Critical Accounting Policies**

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Several of the Company's accounting policies involve significant judgments, uncertainties and estimations. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. To the extent that actual results differ from management's judgments and estimates, there could be a material adverse effect on the Company. On a continuous basis, the Company evaluates its estimates, including, but not limited to, those estimates related to its allowance for doubtful accounts, inventory reserves, and valuation allowance for the deferred tax assets relating to its net operating loss carry forwards ("NOLs") and commitments and contingencies. With respect to accounts receivable, the Company estimates the necessary allowance for doubtful accounts based on both historical and anticipated trends of payment history and the ability of the customer to fulfill its obligations. For inventory, the Company evaluates both current and anticipated sales prices

of its products to determine if a write down of inventory to net realizable value is necessary. In determining the Company's valuation allowance for its deferred tax assets, the Company assesses its ability to generate taxable income in the future. The Company utilizes both internal and external sources to evaluate potential current and future liabilities for various commitments and contingencies. In the event that the assumptions or conditions change in the future, the estimates could differ from the original estimates.

## Overview

Sales of refrigerants continue to represent a significant majority of the Company's revenues. The Company's refrigerant sales are primarily HCFC and HFC based refrigerants and to a lesser extent CFC based refrigerants that are no longer manufactured. Currently the Company purchases virgin HCFC and HFC refrigerants and reclaimable HCFC, HFC and CFC refrigerants from suppliers and its customers. Effective January 1, 1996, the Clean Air Act (the "Act") prohibited the production of virgin CFC refrigerants and limited the production of virgin HCFC refrigerants. Effective January 1, 1996, the Act limited the production of virgin HCFC refrigerants, which production was further limited in January 2004. Federal regulations enacted in January 2004 established production and consumption allowances for HCFCs and imposed limitations on the importation of certain virgin HCFC refrigerants. Under the Act, production of certain virgin HCFC refrigerants is scheduled to be phased out during the period 2010 through 2020, and production of all virgin HCFC refrigerants is scheduled to be phased out by 2030. As a result of litigation, the federal regulations implementing the January 2010 phase down schedule were vacated, and in April 2013 the EPA published a final rule providing for the production or importation of 63 million and 51 million pounds of HCFC-22 in 2013 and 2014, respectively. On October 16, 2014, the Administrator of the EPA signed the Final Rule providing further reductions in the production and consumption allowances for virgin HCFC refrigerants for the years 2015 through 2019. In the Final Rule, the EPA established a linear annual phase down schedule for the production or importation of virgin HCFC-22 that starts at approximately 22 million pounds in 2015 and reduces by approximately 4.5 million pounds each year and ends at zero in 2020.

The Company has created and developed a service offering known as RefrigerantSide® Services. RefrigerantSide® Services are sold to contractors and end-users whose refrigeration systems are used in commercial air conditioning and industrial processing. These services are offered in addition to refrigerant sales and the Company's traditional refrigerant management services, which consist primarily of reclamation of refrigerants. The Company has created a network of service depots that provide a full range of the Company's RefrigerantSide® Services to facilitate the growth and development of its service offerings.

The Company focuses its sales and marketing efforts for its RefrigerantSide® Services on customers who the Company believes most readily appreciate and understand the value that is provided by its RefrigerantSide® Services offering. In pursuing its sales and marketing strategy, the Company offers its RefrigerantSide® Services to customers in the following industries: petrochemical, pharmaceutical, industrial power, manufacturing, commercial facility and property management and maritime. The Company may incur additional expenses as it further develops its RefrigerantSide® Services offering.

## Results of Operations

### Three month period ended September 30, 2015 as compared to the three month period ended September 30, 2014

Revenues for the three month period ended September 30, 2015 were \$21,682,000, an increase of \$6,386,000 or 42% from the \$15,296,000 reported during the comparable 2014 period. The increase in revenues was attributable to an increase in refrigerant revenues of \$6,515,000, offset slightly by a decrease in RefrigerantSide® Services revenues of \$129,000. The increase in refrigerant revenue is primarily related to an increase in the selling price per pound of certain refrigerants sold, which accounted for an increase in revenues of \$5,549,000, as well as an increase in the number of pounds of certain refrigerants sold, which accounted for an increase in revenues of \$966,000. The decrease in RefrigerantSide® Services was primarily attributable to a decrease in the average selling price per job completed compared to the same period in 2014.

Cost of sales for the three month period ended September 30, 2015 was \$17,298,000 or 80% of sales. The cost of sales for the three month period ended September 30, 2014 was \$13,801,000 or 90% of sales. The decrease in the cost of sales percentage is due to the increase in the selling price per pound of certain refrigerants sold for the three month period ended September 30, 2015 compared to the same period in 2014.

Operating expenses for the three month period ended September 30, 2015 were \$2,482,000, an increase of \$860,000 from the \$1,622,000 reported during the comparable 2014 period. The increase in operating expenses is due to (i) an increase in selling expenses of \$328,000, primarily due to selling payroll and advertising expenses, of which

approximately \$231,000 is attributable to the recently acquired assets, and (ii) an increase in general and administrative expenses of \$532,000, primarily related to increases in administrative payroll, professional fees, insurance, and the amortization of intangible assets, of which approximately \$271,000 is attributable to the recently acquired assets and which includes approximately \$145,000 of non-cash charges related to depreciation and amortization. Approximately \$50,000 of the general and administrative expenses incurred during the three month period ended September 30, 2015 were non- recurring professional fees.

Interest expense for the three month period ended September 30, 2015 was \$157,000, compared to the \$99,000 reported during the comparable 2014 period. The increase in interest expense is primarily due to increased borrowing on the PNC Credit Facility offset slightly by a reduction in the interest rates.

Income tax expense for the three month period ended September 30, 2015 was \$663,000 compared to income tax benefit for the three month period ended September 30, 2014 of \$118,000. For 2015 and 2014 the income tax expense (benefit) was for federal and state income tax at statutory rates applied to the pre-tax income. The majority of the income tax expense is non-cash due to the utilization of the net operating loss carry forward.

Net income for the three month period ended September 30, 2015 was \$1,082,000, an increase of \$1,190,000 from the \$108,000 net loss reported during the comparable 2014 period, primarily due to the increase in revenues partially offset by an increase in operating expenses and income tax expense.

Nine month period ended September 30, 2015 as compared to the nine month period ended September 30, 2014

Revenues for the nine month period ended September 30, 2015 were \$72,422,000, an increase of \$24,667,000 or 52% from the \$47,755,000 reported during the comparable 2014 period. The increase in revenues was attributable to an increase in refrigerant revenues of \$25,021,000, offset slightly by a decrease in RefrigerantSide® Services revenues of \$354,000. The increase in refrigerant revenue is primarily related to an increase in the selling price per pound of certain refrigerants sold, which accounted for an increase in revenues of \$16,021,000, as well as an increase in the number of pounds of certain refrigerants sold, which accounted for an increase in revenues of \$9,000,000. The decrease in RefrigerantSide® Services was primarily attributable to a decrease in the average selling price per job completed compared to the same period in 2014.

Cost of sales for the nine month period ended September 30, 2015 was \$55,301,000 or 76% of sales. The cost of sales for the nine month period ended September 30, 2014 was \$42,255,000 or 88% of sales. The decrease in the cost of sales percentage is due to the increase in the selling price per pound of certain refrigerants sold for the nine month period ended September 30, 2015 compared to the same period in 2014.

Operating expenses for the nine month period ended September 30, 2015 were \$7,188,000, an increase of \$2,685,000 from the \$4,503,000 reported during the comparable 2014 period. The increase in operating expenses is due to (i) an increase in selling expenses of \$1,078,000, primarily due to selling payroll and advertising expenses, of which approximately \$528,000 is attributable to the recently acquired assets, and (ii) an increase in general and administrative expenses of \$1,607,000, primarily related to increases in administrative payroll, professional fees, insurance, and the amortization of intangible assets, of which approximately \$981,000 is attributable to the recently acquired assets and which includes approximately \$435,000 of non-cash charges related to depreciation and amortization. Approximately \$177,000 of the general and administrative expenses incurred during the nine month period ended September 30, 2015 were non-recurring professional fees. General and administrative expenses in the nine month period ended September 30, 2014 also reflected a one-time reduction in expenses of approximately \$170,000 related to the collection of a receivable that had been previously written off in a prior year.

Interest expense for the nine month period ended September 30, 2015 was \$600,000, compared to the \$494,000 reported during the comparable 2014 period. The increase in interest expense is primarily due to increased borrowing on the PNC Facility, offset by a reduction in the interest rate.

Income tax expense for the nine month period ended September 30, 2015 was \$3,547,000 compared to income tax expense for the nine month period ended September 30, 2014 of \$143,000. For 2015 and 2014 the income tax expense was for federal and state income tax at statutory rates applied to the pre-tax income. The majority of the income tax expense is non-cash due to the utilization of the net operating loss carry forward.

Net income for the nine month period ended September 30, 2015 was \$5,786,000, an increase of \$5,426,000 from the \$360,000 net income reported during the comparable 2014 period, primarily due to the increase in revenues partially offset by an increase in operating expenses and income tax expense.

#### Liquidity and Capital Resources

At September 30, 2015, the Company had working capital, which represents current assets less current liabilities, of \$40,018,000, an increase of \$7,904,000 from the working capital of \$32,114,000 at December 31, 2014. The increase in working capital is primarily attributable to the net income for the period.



Inventory and trade receivables are principal components of current assets. At September 30, 2015, the Company had inventories of \$48,964,000, an increase of \$11,947,000 from \$37,017,000 at December 31, 2014. The increase in the inventory balance is partially due to the inventory acquired in connection with the recently acquired assets as well as the timing and availability of inventory purchases and the sale of refrigerants. The Company's ability to sell and replace its inventory on a timely basis and the prices at which it can be sold are subject, among other things, to current market conditions and the nature of supplier or customer arrangements and the Company's ability to source CFC based refrigerants (which are no longer being produced), HCFC refrigerants (which are currently being phased down leading to a full phase out of virgin production), or non-CFC based refrigerants. At September 30, 2015, the Company had trade receivables, net of allowance for doubtful accounts, of \$9,614,000, an increase of \$5,646,000 from \$3,968,000 at December 31, 2014. The Company's trade receivables are concentrated with various wholesalers, brokers, contractors and end-users within the refrigeration industry that are primarily located in the continental United States.

The Company has historically financed its working capital requirements through cash flows from operations, the issuance of debt and equity securities, and bank borrowings.

Net cash used in operating activities for the nine month period ended September 30, 2015, was \$5,499,000 compared with net cash provided by operating activities of \$4,654,000 for the comparable 2014 period. Net cash used in operating activities for the 2015 period was primarily attributable to an increase in trade accounts receivable and inventory, offset in part by an increase in accounts payable and accrued expenses as well as net income and the utilization of the deferred tax asset.

Net cash used by investing activities for the nine month period ended September 30, 2015, was \$3,078,000 compared with net cash used by investing activities of \$481,000 for the comparable 2014 period. The net cash used by investing activities for the 2015 period was primarily related to the acquisition of a refrigerant and compressed gases supplier, as well as investment in general purpose equipment for the Company's Champaign, Illinois facility.

Net cash provided by financing activities for the nine month period ended September 30, 2015, was \$8,682,000 compared with net cash used in financing activities of \$3,669,000 for the comparable 2014 period. The net cash provided by financing activities for the 2015 period was primarily due to the proceeds from short term borrowings, partially offset by the repayment of long term debt.

At September 30, 2015, the Company had cash and cash equivalents of \$1,040,000. The Company continues to assess its capital expenditure needs. The Company may, to the extent necessary, continue to utilize its cash balances to purchase equipment primarily for its operations. The Company estimates that the total capital expenditures for 2015 will be approximately \$1,000,000.

The following is a summary of the Company's significant contractual cash obligations for the periods indicated that existed as of September 30, 2015 (in 000's):

	Twelve Month Period Ended September 30,				
	2016	2017	2018	2019	Total
Long and short term debt and capital lease obligations:					
Principal	\$ 14,983	\$ 249	\$ 4,076	\$ 52	\$ 19,360
Estimated interest (1)	584	571	564	1	1,720
Operating leases	1,114	683	346	25	2,168
Acquisition earn out	1,500	1,169	0	0	2,669
Total contractual cash obligations	\$ 18,181	\$ 2,672	\$ 4,986	\$ 78	\$ 25,917

(1) The estimated future interest payments on all debt other than revolving debt are based on the respective interest rates applied to the declining principal balances on each of the notes.

On June 22, 2012, a subsidiary of Hudson entered into a Revolving Credit, Term Loan and Security Agreement (the "PNC Facility") with PNC Bank, National Association, as agent ("Agent" or "PNC"), and such other lenders as may thereafter become a party to the PNC Facility. Under the terms of the PNC Facility, as amended by the First Amendment to the PNC Facility, dated February 15, 2013, Hudson may borrow up to a maximum of \$40,000,000 consisting of a term loan in the principal amount of \$4,000,000 and revolving loans in a maximum amount up to \$36,000,000. Amounts borrowed under the PNC Facility may be used by Hudson for working capital needs and to reimburse drawings under letters of credit. Fees and expenses relating to the creation of the PNC Facility of approximately \$44,000 are being amortized over the life of the loan. At September 30, 2015, total borrowings under the PNC Facility were approximately \$18,600,000, and there was approximately \$14,200,000 available to borrow under the revolving line of credit. The effective interest rate under the PNC Facility was 3.75% at September 30, 2015.

Interest on loans under the PNC Facility is payable in arrears on the first day of each month with respect to loans bearing interest at the domestic rate (as set forth in the PNC Facility) and at the end of each interest period with respect to loans bearing interest at the Eurodollar Rate (as defined in the PNC Facility) or, for Eurodollar Rate Loans (as defined in the PNC Facility) with an interest period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar Rate Loan or (b) the end of the interest period. Interest charges with respect to loans are computed on the actual principal amount of loans outstanding during the month at a rate per annum equal to (A) with respect to Domestic Rate Loans (as defined in the PNC Facility), the sum of the Alternate Base Rate (as defined in the PNC Facility) plus one half of one percent (.50%) and (B) with respect to Eurodollar Rate Loans, the sum of the Eurodollar Rate plus two and one quarter of one percent (2.25%).

Hudson granted to PNC, for itself, and as agent for such other lenders as may thereafter become a lender under the PNC Facility, a security interest in Hudson's receivables, intellectual property, general intangibles, inventory and certain other assets.

The PNC Facility contains certain financial and non-financial covenants relating to Hudson, including limitations on Hudson's ability to pay dividends on common stock or preferred stock, and also includes certain events of default, including payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other obligations, events of bankruptcy and insolvency, certain ERISA events, judgments in excess of specified amounts, impairments to guarantees and a change of control. The PNC Facility contains a financial covenant to maintain at all times a Fixed Charge Coverage Ratio of not less than 1.10 to 1.00, tested quarterly on a rolling twelve month basis. Fixed Charge Coverage Ratio is defined in the PNC Facility, with respect to any fiscal period, as the ratio of (a) EBITDA of Hudson for such period, minus unfinanced capital expenditures (as defined in the PNC Facility) made by Hudson during such period, minus the aggregate amount of cash taxes paid by Hudson during such period, minus the aggregate amount of dividends and distributions made by Hudson during such period, minus the aggregate amount of payments made with cash by Hudson to satisfy soil sampling and reclamation related to environmental cleanup at the Company's former Hillburn, NY facility during such period (to the extent not already included in the calculation of EBITDA as determined by the Agent) to (b) the aggregate amount of all principal payments due and/or made, except principal payments related to outstanding revolving advances with regard to all funded debt (as defined in the PNC Facility) of Hudson during such period, plus the aggregate interest expense of Hudson during such period. EBITDA as defined in the PNC Facility shall mean for any period the sum of (i) earnings before interest and taxes for such period plus (ii) depreciation expenses for such period, plus (iii) amortization expenses for such period, plus (iv) non-cash charges.

On October 25, 2013, the Company entered into the Second Amendment to the PNC Facility (the “Second PNC Amendment”) which, among other things, waived the requirement to comply with the minimum fixed charge coverage ratio covenant of 1.10 to 1.00 for the fiscal quarter ended September 30, 2013 under the PNC Facility and suspended the minimum fixed charge ratio covenant until the quarterly period ending March 31, 2015.

The Second PNC Amendment also redefined the “Revolving Interest Rate” as well as the “Term Loan Rate” (as defined in the PNC Facility) as follows:

“Revolving Interest Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate (as defined in the PNC Facility) plus one percent (1.00%) with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and three quarters of one percent (2.75%) with respect to the Eurodollar Rate Loans.

“Term Loan Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus one percent (1.00%) with respect to the Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and three quarters of one percent (2.75%) with respect to Eurodollar Rate Loans.

On July 2, 2014, the Company entered into the Third Amendment to the PNC Facility (the “Third PNC Amendment”) which, among other things, extended the term of PNC Facility. Pursuant to the Third PNC Amendment, which was effective June 30, 2014, the Termination Date of the PNC Facility (as defined in the PNC Facility) has been extended to June 30, 2018.

On July 1, 2015, the Company entered into the Fourth Amendment to the PNC Facility (the “Fourth PNC Amendment”). The Fourth PNC Amendment redefined the “Revolving Interest Rate” as well as the “Term Loan Rate” (as defined in the PNC Facility) as follows:

“Revolving Interest Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate (as defined in the PNC Facility) plus one half of one percent (.50%) with respect to Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and one quarter of one percent (2.25%) with respect to the Eurodollar Rate Loans.

“Term Loan Rate” shall mean an interest rate per annum equal to (a) the sum of the Alternate Base Rate plus one half of one percent (.50%) with respect to the Domestic Rate Loans and (b) the sum of the Eurodollar Rate plus two and one quarter of one percent (2.25%) with respect to Eurodollar Rate Loans.

The Company was in compliance with all covenants, as amended, under the PNC Facility as of September 30, 2015. The Company's ability to comply with these covenants in future quarters may be affected by events beyond the Company's control, including general economic conditions, weather conditions, regulations and refrigerant pricing. Although we expect to remain in compliance with all covenants in the PNC Facility, as amended, depending on our future operating performance and general economic conditions, we cannot make any assurance that we will continue to be in compliance.

The commitments under the PNC Facility will expire and the full outstanding principal amount of the loans, together with accrued and unpaid interest, are due and payable in full on June 30, 2018, unless the commitments are terminated for any reason or the outstanding principal amount of the loans are accelerated sooner following an event of default.

The Company believes that it will be able to satisfy its working capital requirements for the foreseeable future from anticipated cash flows from operations and available funds under the PNC Facility.

#### Inflation

Inflation has not historically had a material impact on the Company's operations.

#### Reliance on Suppliers and Customers

The Company participates in an industry that is highly regulated, and changes in the regulations affecting our business could affect our operating results. Currently the Company purchases virgin HCFC and HFC refrigerants and reclaimable, primarily HCFC and CFC, refrigerants from suppliers and its customers. Under the Act the phase-down of future production of certain virgin HCFC refrigerants commenced in 2010 and is scheduled to be fully phased out by the year 2020, and production of all virgin HCFC refrigerants is scheduled to be phased out by the year 2030. To the extent that the Company is unable to source sufficient quantities of refrigerants or is unable to obtain refrigerants on commercially reasonable terms or experiences a decline in demand and/or price for refrigerants sold by it, the Company could realize reductions in revenue from refrigerant sales, which could have a material adverse effect on the Company's operating results and financial position.

For the nine month period ended September 30, 2015, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 34% of the Company's revenues. At September 30, 2015, there were \$1,100,000 in outstanding receivables from these customers.

For the nine month period ended September 30, 2014, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 26% of the Company's revenues. At September 30, 2014, there were \$2,004,000 in outstanding receivables from these customers.

The loss of a principal customer or a decline in the economic prospects of and/or a reduction in purchases of the Company's products or services by any such customer could have a material adverse effect on the Company's operating results and financial position.

#### Seasonality and Weather Conditions and Fluctuations in Operating Results

The Company's operating results vary from period to period as a result of weather conditions, requirements of potential customers, non-recurring refrigerant and service sales, availability and price of refrigerant products (virgin or reclaimable), changes in reclamation technology and regulations, timing in introduction and/or retrofit or replacement of refrigeration equipment, the rate of expansion of the Company's operations, and by other factors. The Company's business is seasonal in nature with peak sales of refrigerants occurring in the first half of each year. During past years, the seasonal decrease in sales of refrigerants has resulted in losses particularly in the fourth quarter of the year. In addition, to the extent that there is unseasonably cool weather throughout the spring and summer months, which would adversely affect the demand for refrigerants, there would be a corresponding negative impact on the Company. Delays or inability in securing adequate supplies of refrigerants at peak demand periods, lack of refrigerant demand, increased expenses, declining refrigerant prices and a loss of a principal customer could result in significant losses. There can be no assurance that the foregoing factors will not occur and result in a material adverse effect on the Company's financial position and significant losses. The Company believes that to a lesser extent there is a similar seasonal element to RefrigerantSide® Service revenues as with refrigerant sales. The Company is continuing to assess its RefrigerantSide® Service revenues seasonal trend.

#### Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The core principle of ASU 2014-09 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 that core principle, an entity should apply the following steps: (1)

identify the contract(s) with a customer; (2) identify the performance obligations 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. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. For a public entity, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. An entity should apply the amendments in ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. We are currently evaluating the effects of ASU 2014-09 and therefore cannot estimate the effects, if any, on historical or future revenue recognition at this time.

In January 2015, the FASB issued ASU 2015-01, "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20) - Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." ASU 2015-01 eliminates the concept of extraordinary items from generally accepted accounting principles. Under ASU 2015-01, the nature and financial effects of each event or transaction that is unusual in nature or occurs infrequently or both shall be presented as a separate component of income from continuing operations or, alternatively, disclosed in notes to the financial statements. The amendments in ASU 2015-01 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of ASU 2015-01 will not have a material impact on our results of operations or our financial position.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. For public business entities, the amendments in ASU 2015-03 are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted for financial statements that have not been previously issued. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (that is, debt issuance cost asset and the debt liability). The adoption of ASU 2015-03 will have no impact on our results of operations or our financial position.

In September 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, or ASU 2015-16. This amendment requires the acquirer in a business combination to recognize in the reporting period in which adjustment amounts are determined, any adjustments to provisional amounts that are identified during the measurement period, calculated as if the accounting had been completed at the acquisition date. Prior to the issuance of ASU 2015-16, an acquirer was required to restate prior period financial statements as of the acquisition date for adjustments to provisional amounts. The amendments in ASU 2015-16 are to be applied prospectively upon adoption. The adoption of the provisions of ASU 2015-16 is not expected to have a material impact on our results of operations or our financial position.

### Item 3 - Quantitative and Qualitative Disclosures about Market Risk

#### **Interest Rate Sensitivity**

We are exposed to market risk from fluctuations in interest rates on the PNC Facility. The PNC Facility is a \$40,000,000 secured facility. Interest on loans under the PNC Facility is payable in arrears on the first day of each month with respect to loans bearing interest at the domestic rate (as set forth in the PNC Facility) and at the end of each interest period with respect to loans bearing interest at the Eurodollar rate (as set forth in the PNC Facility) or, for Eurodollar rate loans with an interest period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar rate loan or (b) the end of the interest period. As of September 30, 2015 interest charges with respect to loans are computed on the actual principal amount of loans outstanding during the month at a rate per annum equal to (A) with respect to domestic rate loans, the Alternate Base Rate plus one half of one percent (.50%) and (B) with respect to Eurodollar rate loans, the sum of the Eurodollar rate plus two and one quarter of one percent (2.25%). The outstanding balance on the PNC Facility as of September 30, 2015 was approximately \$18,600,000. Future interest rate changes on our borrowing under the PNC Facility may have an impact on our



consolidated results of operations.

### **Refrigerant Market**

We are also exposed to market risk from fluctuations in the demand, price and availability of refrigerants. To the extent that the Company is unable to source sufficient quantities of refrigerants or is unable to obtain refrigerants on commercially reasonable terms, or experiences a decline in demand and/or price for refrigerants sold by the Company, the Company could realize reductions in revenue from refrigerant sales, which could have a material adverse effect on our consolidated results of operations.

## Item 4 - Controls and Procedures

### Disclosure Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective and provide reasonable assurance that information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Because of the inherent limitations in all control systems, any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Furthermore, the Company's controls and procedures can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control and misstatements due to error or fraud may occur and not be detected on a timely basis.

### Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended September 30, 2015 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1 - Legal Proceedings

For information regarding pending legal matters, refer to the Legal Proceedings Section in Part I, Item 3 of the Company's Form 10-K for the year ended December 31, 2014. There have been no material changes to such matters during the nine month period ended September 30, 2015.

### Item 6 - Exhibits

Exhibit Number	Description
3.1	Certificate of Amendment to Certificate of Incorporation filed September 22, 2015;
10.1	Fourth Amendment To Revolving Credit, Term Loan And Security Agreement between Hudson Technologies Company, and PNC Bank, National Association, dated July 1, 2015 (1)
10.2	Guarantors' Ratification dated July 1, 2015, by the Registrant and Hudson Holdings, Inc. (1)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T

(1) Incorporated by reference to the comparable exhibit filed with the Company's Current Report on Form 8-K filed July 8, 2015

## 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.

### HUDSON TECHNOLOGIES, INC.

By: /s/ Kevin J. Zugibe	November 10, 2015
Kevin J. Zugibe	<b>Date</b>
<i>Chairman and</i>	
<i>Chief Executive Officer</i>	

By: /s/ James R. Buscemi	November 10, 2015
James R. Buscemi	<b>Date</b>
<i>Chief Financial Officer</i>	

**Index to Exhibits**

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