

HUDSON TECHNOLOGIES INC /NY
Form 10-Q
April 29, 2014

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 March 31, 2014

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

(I.R.S. Employer

incorporation or organization)

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**

(Former name, former address, and former fiscal year, if changed since last report)

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:

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer (do not check if a smaller reporting company) ☐ Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐
Yes ☐ 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>25,090,386 shares</u>
Class	Outstanding at April 29, 2014

Hudson Technologies, Inc.

Index

Part	Item	Page
<u>Part I.</u>	<u>Financial Information</u>	
	Item 1 - Financial Statements	
	- Consolidated Balance Sheets	3
	- Consolidated Income Statements	4
	- Consolidated Statements of Cash Flows	5
	- Notes to the Consolidated Financial Statements	6
	Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	14
	Item 3 - Quantitative and Qualitative Disclosures About Market Risk	19
	Item 4 - Controls and Procedures	19
<u>Part II.</u>	<u>Other Information</u>	
	Item 1 - Legal Proceedings	20
	Item 6 - Exhibits	20
	Signatures	

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)

	March 31, 2014 (unaudited)	December 31, 2013
<u>Assets</u>		
<u>Current assets:</u>		
Cash and cash equivalents	\$ 2,489	\$ 669
Trade accounts receivable - net	10,221	3,706
Income taxes receivable	2,709	2,709
Inventories	26,104	33,967
Deferred tax asset	207	207
Prepaid expenses and other current assets	3,103	608
Total current assets	44,833	41,866
Property, plant and equipment, less accumulated depreciation	4,417	4,536
Other assets	93	106
Deferred tax asset	5,265	5,363
Investments in affiliates	424	440
Intangible assets, less accumulated amortization	51	57
Total Assets	\$ 55,083	\$ 52,368
 Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,577	\$ 3,955
Accrued payroll	388	289
Short-term debt and current maturities of long-term debt	14,242	15,367
Total current liabilities	22,207	19,611
Long-term debt, less current maturities	4,597	4,671
Total Liabilities	26,804	24,282

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 50,000,000; issued and outstanding 25,090,386 and 25,070,386

251 251

Additional paid-in capital

44,977 44,944

Accumulated deficit

(16,949) (17,109)

Total Stockholders' Equity

28,279 28,086

Total Liabilities and Stockholders' Equity

\$ 55,083 \$ 52,368

See Accompanying Notes to the Consolidated Financial Statements.

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

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

	Three month period ended March 31,	
	2014	2013
Revenues	\$ 15,584	\$ 22,877
Cost of sales	13,782	13,715
Gross Profit	1,802	9,162
Operating expenses:		
Selling and marketing	650	823
General and administrative	685	934
Total operating expenses	1,335	1,757
Operating income	467	7,405
Interest expense	209	197
Income before income taxes	258	7,208
Income tax expense	98	2,739
Net income	\$ 160	\$ 4,469
Net income per common share - Basic	\$ 0.01	\$ 0.18
Net income per common share - Diluted	\$ 0.01	\$ 0.17
Weighted average number of shares outstanding - Basic	25,090,386	24,334,966
Weighted average number of shares outstanding - Diluted	26,851,678	26,751,714

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)

	Three month period ended March 31, 2014 2013	
Cash flows from operating activities:		
Net income	\$ 160	\$ 4,469
Adjustments to reconcile net income to cash provided (used) by operating activities:		
Depreciation and amortization	205	203
Value of share-based payment arrangements	9	33
Amortization of deferred finance costs	25	21
Deferred tax asset utilization	98	497
Changes in assets and liabilities:		
Trade accounts receivable	(6,515)	(4,561)
Inventories	7,863	(11,367)
Prepaid and other assets	(2,507)	(1,482)
Accounts payable and accrued expenses	3,721	4,852
Cash provided (used) by operating activities	3,059	(7,335)
Cash flows from investing activities:		
Additions to property, plant, and equipment	(80)	(173)
Investment in affiliates	16	(72)
Cash used by investing activities	(64)	(245)
Cash flows from financing activities:		
Proceeds from issuance of common stock	24	607
Proceeds from (repayments of) short-term debt – net	(1,122)	4,503
Repayment of long-term debt	(77)	(84)
Cash provided (used) by financing activities	(1,175)	5,026
Increase (decrease) in cash and cash equivalents	1,820	(2,554)
Cash and cash equivalents at beginning of period	669	3,991
Cash and cash equivalents at end of period	\$ 2,489	\$ 1,437

Supplemental Disclosure of Cash Flow Information:

Cash paid during period for interest	\$184	\$176
--------------------------------------	-------	-------

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 ASC855-10 "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 the quarterly report should be read in conjunction with the Company's audited financial statements and related notes thereto for the year ended December 31, 2013. Operating results for the three month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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.

Fair value of financial instruments

The carrying values of financial instruments including trade accounts receivable and accounts payable approximate fair value at March 31, 2014 and December 31, 2013, because of the relatively short maturity of these instruments. The carrying value of short and long-term debt approximates fair value, based upon quoted market rates of similar debt issues, as of March 31, 2014 and December 31, 2013.

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 receivables 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 three month period ended March 31, 2014, three customers each accounted for 10% or more of the Company's revenues and, in the aggregate these three customers accounted for 44% of the Company's revenues. At March 31, 2014, there were \$6,337,000 in outstanding receivables from these customers.

For the three month period ended March 31, 2013, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 44% of the Company's revenues. At March 31, 2013, there were \$2,923,000 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 is reflected in cost of sales on the Consolidated Statements of Operations. Any such adjustment is 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 buyer 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:

Three Month Period Ended March 31, <i>(in thousands, unaudited)</i>	2014	2013
Refrigerant and reclamation sales	\$ 14,172	\$ 21,810
RefrigerantSide® Services	1,412	1,067
Total	\$ 15,584	\$ 22,877

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 March 31, 2014 and December 31, 2013, the net deferred tax asset was \$5,472,000 and \$5,570,000, 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 \$10,600,000 of the Company's \$16,000,000 of NOLs are subject to annual limitations of \$1,300,000.

The Company has a current income tax receivable of \$2,709,000 at March 31, 2014. This receivable is primarily related to the pre-tax loss for the year ended December 31, 2013.

As a result of an Internal Revenue Service audit, the 2011 and prior federal tax years have been closed. The Company operates in many states throughout the United States and, as of March 31, 2014, 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 IRS recently closed an examination of the Company's federal income tax return for the fiscal year 2011. There were no changes to the 2011 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 March 31, 2014 and December 31, 2013, 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):

	Three Month Period Ended March 31,	
	2014	2013
Net income	\$ 160	\$4,469

Weighted average number of shares – basic	25,090,386	24,334,966
Shares underlying warrants	293,234	476,877
Shares underlying options	1,468,057	1,939,871
Weighted average number of shares outstanding – diluted	26,851,678	26,751,714

During the three month period ended March 31, 2014 and 2013, certain options and warrants aggregating 50,000 and 50,000 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 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 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 our business could affect our operating results. Currently the Company purchases virgin, hydrochlorofluorocarbon (“HCFC”) and hydrofluorocarbon (“HFC”) refrigerants and reclaimable, primarily HCFC 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 and 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. In December 2009, the Environmental Protection Agency (“EPA”) published a final rule (the “2009 Rule”) which limited the total pounds of virgin HCFC refrigerants that could be produced and imported for the years 2010 through 2014 to levels which, based upon the EPA’s estimates, would require as much as 20% of the service demand for existing equipment to be met by reclaimed or recycled HCFC refrigerants. As a result of litigation, the 2009 Rule was vacated, and in April 2013, the EPA issued a final rule (the “April 2013 Rule”) providing for further reductions in the production and importation of HCFC refrigerants in the years 2013 and 2014 when compared to the reductions originally established in the 2009 Rule. In December 2013, a proposed rule was issued by the EPA to address production and consumption allowances for HCFC refrigerants for the years 2015 through 2019. In the proposed rule, the EPA discusses several alternatives for the phase down of HCFC-22 during the years 2015 through 2019, and identifies a preferred approach that would implement a linear draw down for the production or importation of HCFC-22 that would start at 30 million pounds in 2015 and reduce by approximately 6 million pounds each year and end at zero in 2020. A final rule to address production and consumption allowances for the years 2015 through 2019 has not yet been issued by the EPA. The Company expects that a final rule establishing the actual number of pounds for the years 2015 through 2019 will be issued late in 2014.

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 March 2013, the FASB issued ASU No. 2013-05, which amends the guidance in ASC 830, "Foreign Currency Matters". ASU No. 2013-05 addresses the accounting for the cumulative translation adjustment ("CTA") when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. This amended guidance is to be applied prospectively and is effective for the Company beginning on January 1, 2014. The implementation of the amended accounting guidance did not have a material impact on our consolidated financial position or results of operations.

In July 2013, the FASB issued ASU 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this Update are effective for fiscal years (and interim periods within those years) beginning after December 15, 2013. The adoption of ASU 2013-11 did not 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, 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 three month period ended March 31, 2014 and 2013, the share-based compensation expense of \$9,000 and \$33,000, respectively, is reflected in general and administrative expenses in the consolidated income statements.

Share-based awards have historically been stock options 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. The Compensation Committee has delegated authority to the Company's Chief Executive Officer to grant stock options under the Company's 2004 and 2008 stock incentive plans to employees who are not executive officers of up to a maximum of 10,000 shares per employee and up to an aggregate of 50,000 shares per year. As of March 31, 2014, the Plans authorized the issuance of stock options to purchase 5,500,000 shares of the Company's common stock and, as of March 31, 2014 there were 2,521,733 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 generally vested from immediately to two years from the grant date and have had a contractual term ranging from five to ten years.

For the three month period ended March 31, 2014 and 2013, the Company issued no options and 50,000 options, respectively. As of March 31, 2014, there was \$74,000 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 upon the exercise of options, designated as either (i) ISOs under the Code, or (ii) nonqualified options, restricted stock, deferred stock or other stock-based awards. ISOs may be granted under the 2004 Plan to employees and officers of the Company. Non qualified options, restricted 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 2004 Plan is sooner terminated, the ability to grant options or other awards under the 2004 Plan will expire on September 10, 2014.

ISOs granted under the 2004 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 2004 Plan may not be granted at a price less than the fair market value of the common stock. Options granted under the 2004 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 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 upon the exercise of options, designated as either (i) ISOs under the Code, or (ii) nonqualified options, restricted 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, restricted 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).

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 share based awards at the grant date by using the Black-Scholes option-pricing model, and is incorporating the simplified method to compute expected lives of share based awards with the following weighted-average assumptions:

Three Month Period Ended March 31,			
	2014	2013	
Assumptions			
Dividend yield	—	0	%
Risk free interest rate	—	.85	%
Expected volatility	—	76	%
Expected lives	—	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, 2012	3,348,935	\$ 1.23
· Cancelled	(58,617)	\$ 1.87
· Exercised	(945,761)	\$ 1.20
· Granted	173,354	\$ 2.59
Outstanding at December 31, 2013	2,517,911	\$ 1.33
· Cancelled	0	
· Exercised	(20,000)	\$ 1.18
· Granted	0	
Outstanding at March 31, 2014	2,497,911	\$ 1.33

The following is the weighted average contractual life in years and the weighted average exercise price at March 31, 2014 of:

	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Options outstanding	2,497,911	3.7 years	\$ 1.33
Options vested	2,462,911	3.7 years	\$ 1.30

The following is the intrinsic value at March 31, 2014 of:

Options outstanding	\$3,783,977
Options vested in 2014	\$0
Options exercised in 2014	\$52,000

The intrinsic value of options exercised during the year ended December 31, 2013 was \$2,816,000.

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, Hudson could initially borrow up to \$27,000,000 consisting of a term loan in the principal amount of \$4,000,000 and revolving loans in a maximum amount up to the lesser of \$23,000,000 and a borrowing base that is calculated based on the outstanding amount of Hudson's eligible receivables and eligible inventory, as described in the PNC Facility. On February 15, 2013, the PNC Facility was amended. As a result of this amendment, 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 \$125,000 are being amortized over the life of the loan. At March 31, 2014, total borrowings under the PNC Facility were \$17,958,000, and there was \$7,612,000 available to borrow under the revolving line of credit. The effective interest rate under the PNC Facility was 3.0% at March 31, 2014.

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. 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 sum of (i) a rate per annum equal to the higher of (1) the base commercial lending rate of PNC, (2) the federal funds open rate plus .5% and (3) the daily LIBOR plus 1%, plus (ii) .5% and (B) with respect to Eurodollar rate loans, the sum of the Eurodollar rate plus 2.75%.

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 distribution 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, we entered into the Second Amendment to the PNC Facility (the "Second PNC Amendment"), which among other things, waived our 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. The covenant waiver was required primarily because of the adverse impact on our results of operations from the significant reduction in the selling price of HCFC-22 following the EPA's final ruling allowing for the production or importation of 63 million and 51 million pounds of HCFC-22 in 2013 and 2014, respectively.

The amendment suspended the minimum fixed charge ratio covenant until the quarterly period ending March 31, 2015 and set the minimum EBITDA for the quarters ended December 31, 2013 through December 31, 2014, as follows:

Period	Amount
Three month period ended December 31, 2013	\$(2,154,000)
Three month period ending March 31, 2014	\$494,000
Six month period ending June 30, 2014	\$2,035,000
Nine month period ending September 30, 2014	\$3,012,000
Twelve month period ending December 31, 2014	\$1,879,000

EBITDA for the three month period ended March 31, 2014 was \$672,000, which was in compliance with the EBITDA covenant, as amended by the Second PNC Amendment, for the period of \$494,000. The EBITDA was calculated as follows:

	For the three months ending March 31, 2014
Net income	\$ 160,000
add: income tax provision	98,000
Income before income taxes	258,000
add: interest expense	209,000
add: depreciation and amortization	205,000
 Earnings before interest, taxes, depreciation, and amortization	 \$ 672,000

EBITDA, which represents a non-GAAP measurement of certain financial results, does not represent and should not be considered as an alternative to net income or cash provided by operating activities as determined by GAAP. We make no representation or assertion that EBITDA is indicative of our cash provided by operating activities or results of operations. We have provided a reconciliation of the net loss to EBITDA solely for the purpose of complying with SEC regulations and not as an indication that EBITDA is a substitute measure for income from operations.

The Company was in compliance with all covenants, as amended by the Second PNC Amendment, under the PNC Facility as of March 31, 2014. 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 by the Second PNC Amendment, depending on our future operating performance and general economic conditions, we cannot make any assurance that we will continue to be in compliance.

The amendment redefines the "Revolving Interest Rate" as well as the "Term Loan Rate" as previously defined in the agreement as follows:

"Revolving Interest 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 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.

"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.

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 22, 2015, unless the commitments are terminated and the outstanding principal amount of the loans are accelerated sooner following an event of default.

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 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 CFC and non-CFC based 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, and other risks detailed in this report and in the Company's other periodic reports filed 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 portion 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, primarily HCFC and CFC refrigerants from suppliers and its customers. Effective January 1, 1996, 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 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. In December 2009, the EPA issued the 2009 Rule which limited the total pounds of virgin HCFC refrigerants that could be produced and imported for the years 2010 through 2014. In 2011, as a result of litigation, the 2009 Rule was vacated, and in April 2013, the EPA issued a final rule providing for further reductions in the production and importation of HCFC refrigerants in the years 2013 and 2014 when compared to the reductions originally established in the 2009 Rule. The final rule issued in April 2013 allows for the production or importation of 63 million and 51 million pounds of HCFC-22 in 2013 and 2014, respectively. In December 2013, a proposed rule was issued by the EPA to address production and consumption allowances for HCFC refrigerants for the years 2015 through 2019. In the proposed rule, the EPA discusses several alternatives for the phase down of HCFC-22 during the years 2015 through 2019, and identifies a preferred approach that would implement a linear draw down for the production or importation of HCFC-22 that would start at 30 million pounds in 2015 and reduce by approximately 6 million pounds each year and end at zero in 2020. A final rule to address production and consumption allowances for the years 2015 through 2019 has not yet been issued by the EPA. As reflected in our historical operating results, EPA rule making and its corresponding impact on supply, pricing, and market behavior has a material effect on the Company's operating results. The Company expects this final rule to have a material impact on the Company's operating results and financial position.

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 develops its RefrigerantSide® Services offering.

Results of Operations

Three month period ended March 31, 2014 as compared to the three month period ended March 31, 2013

Revenues for the three month period ended March 31, 2014 were \$15,584,000, a decrease of \$7,293,000 or 32% from the \$22,877,000 reported during the comparable 2013 period. The decrease in revenues was attributable to a decrease in refrigerant revenues of \$7,638,000 offset by an increase in RefrigerantSide® Services revenues of \$345,000. The decrease in refrigerant revenue is primarily related to a decrease in the selling price per pound of certain refrigerants sold, which accounted for a decrease in revenues of \$12,300,000, offset in part by an increase in the number of pounds of certain refrigerants sold, which accounted for an increase in revenues of \$4,662,000. The increase in RefrigerantSide® Services was primarily attributable to an increase in the average revenue per job completed compared to the same period in 2013.

Cost of sales for the three month period ended March 31, 2014 was \$13,782,000 or 88% of sales. The cost of sales for the three month period ended March 31, 2013 was \$13,715,000 or 60% of sales. The increase in the cost of sales percentage from 60% for the three month period ended March 31, 2013 to 88% for the three month period ended March 31, 2014 is due to the cost of HCFC-22 per pound, relative to the lower selling price per pound yielding a lower gross margin on the HCFC-22 sales for the three month period ended March 31, 2014 compared to the gross margins on the HCFC-22 for the same period in 2013.

Operating expenses for the three month period ended March 31, 2014 were \$1,335,000, a decrease of \$422,000 from the \$1,757,000 reported during the comparable 2013 period. The decrease in operating expenses is due to a decrease

in selling expenses of \$173,000, primarily due to decreased selling payroll and advertising costs, as well as a decrease in general and administrative expenses of \$249,000 primarily due to a decrease in administrative payroll, investor relations and insurance expenses, and a collection of a bad debt.

Interest expense for the three month period ended March 31, 2014 was \$209,000, compared to the \$197,000 reported during the comparable 2013 period. The increase in interest expense is due to increased borrowing on the PNC Facility.

Income tax expense for the three month period ended March 31, 2014 was \$98,000 compared to income tax expense for the three month period ended March 31, 2013 of \$2,739,000. For 2014 the income tax expense of \$98,000 was for federal and state income tax at statutory rates applied to the pre-tax income. For 2013 the income tax expense of \$2,739,000 was for federal and state income tax at statutory rates applied to the pretax income.

Net income for the three month period ended March 31, 2014 was \$160,000, a decrease of \$4,309,000 from the \$4,469,000 net income reported during the comparable 2013 period, primarily due to the reduction in gross profit of \$7,360,000, partially offset by a reduction in operating expenses of \$422,000 and a reduction in income tax expense of \$2,641,000.

Liquidity and Capital Resources

At March 31, 2014, the Company had working capital, which represents current assets less current liabilities of \$22,626,000, an increase of \$371,000 from the working capital of \$22,255,000 at December 31, 2013. 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 March 31, 2014, the Company had inventories of \$26,104,000, a decrease of \$7,863,000 from \$33,967,000 at December 31, 2013. The decrease in the inventory balance is due to 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 March 31, 2014, the Company had trade receivables, net of allowance for doubtful accounts, of \$10,221,000, an increase of \$6,515,000 from \$3,706,000 at December 31, 2013. 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 provided from operating activities for the three month period ended March 31, 2014, was \$3,059,000 compared with net cash used by operating activities of \$7,335,000 for the comparable 2013 period. Net cash provided from operating activities for the 2014 period was primarily attributable to a decrease in inventory as well as an increase in accounts payable and accrued expenses offset by an increase in trade accounts receivable and prepaid and other assets.

Net cash used by investing activities for the three month period ended March 31, 2014, was \$64,000 compared with net cash used by investing activities of \$245,000 for the comparable 2013 period. The net cash used by investing activities for the 2014 period was primarily related to investment in general purpose equipment for the Company's Champaign, Illinois facility.

Net cash used by financing activities for the three month period ended March 31, 2014, was \$1,175,000 compared with net cash provided by financing activities of \$5,026,000 for the comparable 2013 period. The net cash used by financing activities for the 2014 period was primarily due to repayment of short term debt.

At March 31, 2014, the Company had cash and cash equivalents of \$2,489,000. 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 2014 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 March 31, 2014 (in 000's):

	Twelve Month Period Ended March 31,					
Long and short term debt and capital lease obligations:	2015	2016	2017	2018	2019 & Thereafter	Total
Principal	\$14,242	\$4,282	\$267	\$48	\$0	\$18,839
Estimated interest (1) (2)	567	288	7	0	0	862
Operating leases	705	317	154	117	44	1,337
Total contractual cash obligations	\$15,514	\$4,887	\$428	\$165	\$44	\$21,038

-
- (1) The estimated interest payments on revolving debt are based on the interest rates in effect per the Second PNC Amendment and the outstanding revolving debt obligation as of March 31, 2014 through the expiration of the PNC Facility (as defined below).
- (2) 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 the PNC Facility. Under the terms of the PNC Facility, Hudson could initially borrow up to \$27,000,000 consisting of a term loan in the principal amount of \$4,000,000 and revolving loans in a maximum amount up to the lesser of \$23,000,000 and a borrowing base that is calculated based on the outstanding amount of Hudson's eligible receivables and eligible inventory, as described in the PNC Facility. On February 15, 2013, the PNC Facility was amended. As a result of this amendment, 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. At March 31, 2014, total borrowings under the PNC Facility were \$17,958,000, and there was \$7,612,000 available to borrow under the revolving line of credit. The effective interest rate under the PNC Facility was 3.0% at March 31, 2014.

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. 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 sum of (i) a rate per annum equal to the higher of (1) the base commercial lending rate of PNC, (2) the federal funds open rate plus .5% and (3) the daily LIBOR plus 1%, plus (ii) .5% and (B) with respect to Eurodollar rate loans, the sum of the Eurodollar rate plus 2.75%.

Hudson granted to PNC, for itself, and as agent for such other lenders as thereafter may 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 distribution 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, we entered into the Second PNC Amendment which among other things, waived our 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. The covenant waiver was required primarily because of the adverse impact on our results of operations from the significant reduction in the selling price of HCFC-22 following the EPA's final ruling allowing for the production or importation of 63 million and 51 million pounds of HCFC-22 in 2013 and 2014, respectively.

The amendment suspended the minimum fixed charge ratio covenant until the quarterly period ending March 31, 2015 and set the minimum EBITDA for the quarters ended December 31, 2013 through December 31, 2014, as follows:

Period	Amount
Three month period ended December 31, 2013	\$(2,154,000)
Three month period ending March 31, 2014	\$494,000
Six month period ending June 30, 2014	\$2,035,000

Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10-Q

Nine month period ending September 30, 2014	\$3,012,000
Twelve month period ending December 31, 2014	\$1,879,000

EBITDA for the three month period ended March 31, 2014 was \$672,000, which was in compliance with the EBITDA covenant, as amended by the Second PNC Amendment, for the period of \$494,000 . The EBITDA was calculated as follows:

	For the three months ending March 31, 2014
Net income	\$160,000
add: income tax expense	98,000
Income before income taxes	258,000
add: interest expense	209,000
add: depreciation and amortization	205,000
Earnings before interest, taxes, depreciation, and amortization	\$672,000

EBITDA, which represents a non-GAAP measurement of certain financial results, does not represent and should not be considered as an alternative to net income or cash provided by operating activities as determined by GAAP. We make no representation or assertion that EBITDA is indicative of our cash provided by operating activities or results of operations. We have provided a reconciliation of the net loss to EBITDA solely for the purpose of complying with SEC regulations and not as an indication that EBITDA is a substitute measure for income from operations.

The Company was in compliance with all covenants, as amended by the Second PNC Amendment, under the PNC Facility as of March 31, 2014. 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 by the Second PNC Amendment, depending on our future operating performance and general economic conditions, we cannot make any assurance that we will continue to be in compliance.

The Second PNC Amendment redefines the “Revolving Interest Rate” as well as the “Term Loan Rate” as previously defined in the agreement as follows:

“Revolving Interest 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 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.

“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.

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 22, 2015, unless the commitments are terminated and the outstanding principal amount of the loans are accelerated sooner following an event of default.

On June 1, 2012, the Company entered into a mortgage note with Busey Bank for \$855,000. The note bears interest at the fixed rate of 4% per annum, amortizing over 60 months and maturing on June 1, 2017. The mortgage note is secured by the Company’s land and building located in Champaign, Illinois. As of March 31, 2014, the principal balance of this mortgage note was \$561,000.

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. Any unanticipated expenses, including, but not limited to, an increase in the cost of refrigerants purchased by the Company, an increase in operating expenses or failure to achieve expected revenues from the Company's RefrigerantSide® Services and/or refrigerant sales or additional expansion or acquisition costs that may arise in the future would adversely affect the Company's future capital needs. There can be no assurance that the Company's proposed or future plans will be successful, and as such, the Company may require additional capital sooner than anticipated, which capital may not be available.

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 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 three month period ended March 31, 2014, three customers each accounted for 10% or more of the Company's revenues and, in the aggregate these three customers accounted for 44% of the Company's revenues. At March 31, 2014, there were \$6,337,000 in outstanding receivables from these customers. For the three month period ended March 31, 2013, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 44% of the Company's revenues. At March 31, 2013, there were \$2,923,000 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 CFC and non CFC based 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 refrigerant sales. The Company is continuing to assess its RefrigerantSide® Service revenues seasonal trend.

Recent Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-05, which amends the guidance in ASC 830, "Foreign Currency Matters". ASU No. 2013-05 addresses the accounting for the cumulative translation adjustment ("CTA") when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. This amended guidance is to be applied prospectively and is effective for the Company beginning on January 1, 2014. The implementation of the amended accounting guidance did not have a material impact on our consolidated financial position or results of operations.

In July 2013, the FASB issued ASU 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this Update are effective for fiscal years (and interim periods within those years) beginning after December 15, 2013. The adoption of ASU 2013-11 did not 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 primarily 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 March 31, 2014 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 sum of (i) a rate per annum equal to the higher of (1) the base commercial lending rate of PNC, (2) the federal funds open rate plus .5% and (3) the daily LIBOR plus 1%, plus (ii) .5% and (B) with respect to Eurodollar rate loans, the sum of the Eurodollar rate plus 2.75%. The outstanding balance on the PNC Facility as of March 31, 2014 was \$17,958,000. Future interest rate changes on our

borrowing under the PNC Facility may have an impact 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 provide reasonable assurance that they are effective to ensure 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) in the quarter ended March 31, 2014 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, 2013.

Item 6 - Exhibits

<u>Exhibit Number</u>	<u>Description</u>
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

101 Section 906 of
the
Sarbanes-Oxley
Act of 2002
Interactive Data
Files Pursuant to
Rule 405 of
Regulation S-T

20

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 April 29, 2014
Kevin J. Zugibe **Date**
Chairman and
Chief Executive Officer

By: /s/ James R. Buscemi April 29, 2014
James R. Buscemi **Date**
Chief Financial Officer

Index to Exhibits

<u>Exhibit Number</u>	<u>Description</u>
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
32.2	Section 906 of the Sarbanes-Oxley Act of 2002 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
101	Section 906 of the Sarbanes-Oxley Act of 2002 Interactive Data Files Pursuant to Rule 405 of Regulation S-T

