

HUDSON TECHNOLOGIES INC /NY
Form 10-Q
November 04, 2016

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, 2016

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:

Large accelerated filer

Accelerated filer

x

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

Smaller reporting company

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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:

Common stock, \$0.01 par value	34,042,964 shares
Class	Outstanding at October 31, 2016

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, 2016 (unaudited)	December 31, 2015
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 3,976	\$ 1,258
Trade accounts receivable - net	9,232	4,414
Inventories	66,584	61,897
Deferred tax asset	376	376
Prepaid expenses and other current assets	670	1,524
Total current assets	80,838	69,469
Property, plant and equipment, less accumulated depreciation	7,055	7,536
Other assets	75	76
Deferred tax asset	1,703	3,287
Goodwill	856	856
Intangible assets, less accumulated amortization	3,422	3,787
Total Assets	\$ 93,949	\$ 85,011
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Trade accounts payable	\$ 4,150	\$ 5,792
Income taxes payable	1,787	—
Accrued expenses and other current liabilities	2,864	3,018
Accrued payroll	502	1,577
Revolving line of credit	15,022	20,227
Short-term debt and current maturities of long-term debt	254	346
Total current liabilities	24,579	30,960
Other liabilities	—	333
Long-term debt, less current maturities	4,149	4,293
Total Liabilities	28,728	35,586

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	—	—
Common stock, \$0.01 par value; shares authorized 100,000,000; issued and outstanding 34,013,664 and 32,804,617	340	328
Additional paid-in capital	65,386	62,163
Accumulated deficit	(505)	(13,066)
Total Stockholders' Equity	65,221	49,425
 Total Liabilities and Stockholders' Equity	 \$ 93,949	 \$ 85,011

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 periods		Nine month periods	
	<u>ended September 30,</u>		<u>ended September 30,</u>	
	2016	2015	2016	2015
Revenues	\$34,930	\$21,682	\$97,701	\$72,422
Cost of sales	22,890	17,298	67,649	55,301
Gross profit	12,040	4,384	30,052	17,121
Operating expenses:				
Selling and marketing	901	958	3,037	2,972
General and administrative	3,121	1,524	5,835	4,216
Total operating expenses	4,022	2,482	8,872	7,188
Operating income	8,018	1,902	21,180	9,933
Interest expense	(296)	(157)	(919)	(600)
Income before income taxes	7,722	1,745	20,261	9,333
Income tax expense	2,933	663	7,699	3,547
Net income	\$4,789	\$1,082	\$12,562	\$5,786
Net income per common share – Basic	\$0.14	\$0.03	\$0.38	\$0.18
Net income per common share – Diluted	\$0.14	\$0.03	\$0.37	\$0.17
Weighted average number of shares outstanding – Basic	33,873,479	32,639,429	33,265,470	32,487,230
Weighted average number of shares outstanding – Diluted	35,297,585	33,856,045	34,341,930	34,071,982

See Accompanying Notes to the Consolidated Financial Statements.

Hudson Technologies, Inc. and Subsidiaries**Consolidated Statements of Cash Flows**

(Amounts in thousands)

	Nine month periods ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 12,562	\$ 5,786
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	1,723	1,622
Allowance for doubtful accounts	17	48
Value of share-based payment arrangements	601	162
Amortization of deferred finance costs	113	69
Deferred tax asset utilization	1,584	3,422
Adjustment to deferred acquisition payable	594	—
Changes in assets and liabilities (net of acquisition):		
Trade accounts receivable	(4,834)	(5,694)
Inventories	(4,687)	(10,497)
Prepaid and other assets	741	(4,521)
Income taxes payable	1,787	—
Accounts payable and accrued expenses	(2,760)	4,104
Cash provided by (used in) operating activities	7,441	(5,499)
Cash flows from investing activities:		
Payments for acquisitions	—	(2,424)
Additions to patents	—	(7)
Additions to property, plant, and equipment	(877)	(647)
Cash used in investing activities	(877)	(3,078)
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,634	384
(Repayment of) Proceeds from short-term debt – net	(5,205)	8,580
Proceeds from long-term debt – net	27	292
Repayment of long-term debt	(264)	(243)
Payment of deferred acquisition cost	(1,038)	(331)
Cash (used in) provided by financing activities	(3,846)	8,682
Increase in cash and cash equivalents	2,718	105
Cash and cash equivalents at beginning of period	1,258	935

Cash and cash equivalents at end of period	\$3,976	\$1,040
Supplemental Disclosure of Cash Flow Information:		
Cash paid during period for interest	\$806	\$531
Cash paid for income taxes	\$4,328	\$—
Non cash investing activity:		
Deferred acquisition consideration	\$—	\$1,982

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 operations consist of one reportable segment. The Company's products and services are primarily used in commercial air conditioning, industrial processing and refrigeration systems, and include refrigerant and industrial gas sales, refrigerant management services consisting primarily of reclamation of refrigerants and RefrigerantSide® Services performed at a customer's site, consisting of system decontamination to remove moisture, oils and other contaminants. In addition, 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® and Chill Smart® services are also 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, 2015. Operating results for the nine month period ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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 the same as 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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015.

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 nine-month period ended September 30, 2016, two customers each accounted for 10% or more of the Company's revenues, and in the aggregate, these two customers accounted for 33% of the Company's revenues. At September 30, 2016, there were no outstanding receivables from these customers.

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.

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 in the Consolidated Income Statements. 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.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business combinations accounted for under the purchase method of accounting. For the year ended December 31, 2015 the Company performed the annual goodwill impairment assessment using a qualitative approach to determine whether it is more likely than not that the fair value of goodwill is less than its carrying value. In performing the qualitative assessment, we identify and consider the significance of relevant key factors, events, and circumstances that affect the fair value of our goodwill. These factors include external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as our actual and planned financial performance. If the results of the qualitative assessment conclude that it is not more likely than not that the fair value of goodwill exceeds its carrying value, additional quantitative impairment testing is performed.

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 Periods Ended September 30,	2016	2015
(in thousands, unaudited)		
Refrigerant and reclamation sales	\$94,353	\$69,032
RefrigerantSide® Services	3,348	3,390
Total	\$97,701	\$72,422

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, 2016 and December 31, 2015, the net deferred tax asset was \$2,079,000 and \$3,663,000, 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. All of the Company's remaining NOLs of approximately \$5,000,000 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, 2016, the various states' statutes of limitations remain open for tax years subsequent to 2012. 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, 2016 and December 31, 2015, the Company had no uncertain tax positions.

Net 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):

	Three Month Periods		Nine Month Periods	
	ended September 30, 2016	2015	ended September 30, 2016	2015
Net income	\$4,789	\$1,082	\$12,562	\$5,786
Weighted average number of shares - basic	33,873,479	32,639,429	33,265,470	32,487,230
Shares underlying warrants	—	176,775	—	332,269
Shares underlying options	1,424,106	1,039,841	1,076,460	1,252,483
Weighted average number of shares outstanding – diluted	35,297,585	33,856,045	34,341,930	34,071,982

During the three-month periods ended September 30, 2016 and 2015, certain options and warrants aggregating 73,034 and 1,196,643 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, 2016 and 2015, certain options and warrants aggregating 123,034 and 75,000 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 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 our business could affect our 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. In October 2014, the EPA published a final rule establishing final production and consumption allowances for virgin HCFC refrigerants for the years 2015 through 2019 (the "Final Rule"). In the Final Rule, the EPA has established a linear draw down for the production or importation of virgin HCFC-22 that started 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 August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments." This ASU addresses eight specific cash flow issues with the objective of eliminating the existing diversity in practice. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and for interim periods therein. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting.” This ASU simplifies certain aspects of the accounting for share-based payment transactions, including income tax requirements, forfeitures, and presentation on the balance sheet and the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2016 and for the interim periods therein. The Company is currently evaluating the impact of the adoption of ASU 2016-09 on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. The accounting applied by a lessor is largely unchanged from that applied under previous GAAP. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee also have not significantly changed from previous GAAP. Under ASU 2016-02, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term.

For finance leases, a lessee is required to do the following: (1) Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position; (2) Recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income; and (3) Classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows.

For operating leases, a lessee is required to do the following (1) Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position; (2) Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and (3) Classify all cash payments within operating activities in the statement of cash flows.

In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. For public entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in this Update is

permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes". ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in ASU 2015-17 apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected. For public business entities, the amendments in ASU 2015-17 are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The Company does not expect this adoption to have a material effect on its consolidated financial statements.

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 the 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, 2016 and 2015, the share-based compensation expense of \$601,000 and \$162,000, respectively, is reflected in general and administrative expenses in the Consolidated Income Statements.

Share-based awards have historically been made as stock options and 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, 2016, the Plans authorized the issuance of 6,000,000 shares of the Company's common stock and, as of September 30, 2016 there were 3,251,340 shares of the Company's common stock available for issuance in connection with 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, 2016 and 2015, the Company issued options to purchase 1,170,534 shares of common stock and 164,506 shares of common stock, respectively. As of September 30, 2016 there was \$1,000 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 terminated sooner, 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 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:

Nine Month Periods Ended September 30,	2016		2015	
Assumptions				
Dividend yield	0	%	0	%
Risk free interest rate	0.85%-1.01	%	0.83%-1.103	%
Expected volatility	47%-53	%	49%-60	%
Expected lives	3 years		3 years	

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

Stock Option Plan Totals	Shares	Weighted Average Exercise Price
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Outstanding at December 31, 2014	3,280,874	\$	1.98
-Cancelled	(132,500)	\$	3.72
-Exercised	(679,291)	\$	1.65
-Granted	164,506	\$	3.28
Outstanding at December 31, 2015	2,633,589	\$	2.06
-Exercised	(530,425)	\$	2.38
-Granted	1,170,534	\$	3.95
Outstanding at September 30, 2016	3,273,698	\$	2.68

The following is the weighted average contractual life in years and the weighted average exercise price at September 30, 2016 of:

	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Options outstanding and fully vested	3,273,698	2.3 years	\$ 2.68

The following is the intrinsic value at September 30, 2016 of:

Options outstanding	\$12,985,136
Options exercised in 2016	\$1,499,774

The intrinsic value of options exercised during the year ended December 31, 2015 was \$1,309,000.

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. The Maximum Loan Amount (as defined in the PNC Facility) is currently \$50,000,000, and the Maximum Revolving Advance Amount (as defined in the PNC Facility) is 46,000,000. The Termination Date of the Facility (as defined in the PNC Facility) is June 30, 2020.

Under the terms of the original PNC Facility, as amended by the First Amendment to the PNC Facility, dated February 15, 2013, Hudson could initially 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.

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 ended March 31, 2015.

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) was 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.

On April 8, 2016, the Company entered into the Fifth Amendment to the PNC Facility (the “Fifth PNC Amendment”). Pursuant to the Fifth PNC Amendment, the Maximum Loan Amount (as defined in the PNC Facility) has been increased from \$40,000,000 to \$50,000,000, and the Maximum Revolving Advance Amount (as defined in the PNC Facility) has been increased from \$36,000,000 to \$46,000,000. Additionally, pursuant to the Fifth PNC Amendment the Termination Date of the Facility (as defined in the PNC Facility) has been extended to June 30, 2020. At September 30, 2016, total borrowings under the PNC Facility were \$19,022,209, and there was \$27,670,000 available to borrow under the revolving line of credit. The effective interest rate under the PNC Facility was 3.5% at September 30, 2016.

The Company was in compliance with all covenants, under the PNC Facility as of September 30, 2016. 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, 2020, 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 ("Polar") related to its refrigerant reclamation business and facilities in Nashville, Tennessee; Ontario, California; and San Juan, Puerto Rico; hiring approximately thirty-two Polar employees associated with the business. The purchase price for this acquisition was \$8,035,000. A portion of the purchase price is to be paid in the future pursuant to the purchase agreement. The preliminary asset allocation reflected in the December 31, 2014 financial statements was approximately \$5,435,000 of tangible assets, approximately \$2,335,000 of intangible assets, and approximately \$265,000 of goodwill. The intangible assets will be amortized over a period of 2 to 10 years. The goodwill recognized as part of the acquisition, is deductible for tax purposes.

As of December 31, 2015 the valuation and allocation of the purchase price for Polar was finalized resulting in an increase in tangible assets of \$165,000, as well as an increase in goodwill of \$170,000 and a decrease in intangible assets of \$335,000. This final valuation has been reflected in the December 31, 2015 financial statements.

The results of the Polar operations are included in the Company's Consolidated Income Statements from the date of acquisition and are not material to the Company's financial position or results of operations.

On January 16, 2015, the Company acquired certain assets of a supplier of refrigerants and compressed gases, and also hired three 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, and a maximum of an additional \$3,000,000 earn-out. The preliminary asset allocation was approximately \$1,606,000 of tangible assets, approximately \$1,500,000 of intangible assets, and approximately \$2,338,000 of goodwill.

As of December 31, 2015 the valuation and allocation of the purchase price for this acquisition was finalized. As part of that process, it has been determined that the earn-out payable that had been previously recorded at the maximum earn out of \$3,000,000 per the purchase agreement was overstated by approximately \$1,000,000. This adjustment to the earn-out payable resulted in lowering the purchase price from approximately \$5,400,000 to approximately \$4,400,000. The final valuation resulted in a reduction in goodwill by approximately \$1,900,000, and increase in intangible assets of approximately \$800,000 and an increase in current assets of approximately \$100,000. This final valuation as well as the respective changes in the amortization of intangibles has been reflected in the December 31, 2015 financial statements.

The adjusted earn-out payable of approximately \$2,000,000 consists of approximately \$1,100,000 for the fiscal year ended December 31, 2015 and approximately \$864,000 for the fiscal year ending December 31, 2016. For the fiscal year ended December 31, 2015, the actual earn-out was approximately \$800,000 resulting in a year end adjustment to reduce the payable by approximately \$300,000 which has been reflected in the December 31, 2015 Consolidated Statements of Operations as Other income. As of December 31, 2015, approximately \$445,000 of the 2015 earn-out has been paid and the remaining balance of \$371,000 is recorded in Accrued expenses and other current liabilities on the December 31, 2015 Consolidated Balance Sheet and has been subsequently paid as of September 30, 2016.

The estimated earnout for the fiscal year ending December 31, 2016 of \$864,000 was recorded in Other current liabilities on the December 31, 2015 Consolidated Balance Sheet. As of September 30, 2016, as a result of improved performance, the Company increased earnout liability by approximately \$594,000, which was recorded as general and administrative expense in the Company's Consolidated Income Statements during the third quarter of 2016. As of September 30, 2016, approximately \$334,000 has been paid and the remaining balance of \$1,124,000 is recorded in Accrued expenses and other current liabilities on the September 30, 2016 consolidated balance sheet.

The intangible assets are being amortized over a period ranging from two to ten 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 acquisitions are 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, 2015 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 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 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. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business combinations accounted for under the purchase method of accounting. The Company tests for any impairment of goodwill annually. Intangibles with determinable lives are amortized over the estimated useful lives of the assets currently ranging from 2 to 10 years. The Company reviews these useful lives annually to determine that they reflect future realizable value. 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 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, 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. In October 2014, the EPA published the Final Rule establishing final production and consumption allowances for virgin HCFC refrigerants for the years 2015 through 2019. In the Final Rule, the EPA has established a linear annual phase down schedule for the production or importation of virgin HCFC-22 that started at approximately 22 million pounds in 2015 and is being reduced by approximately 4.5 million pounds each year and ends at zero in 2020.

The Company has also 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 and markets its RefrigerantSide® Services offering.

Results of Operations

Three month period ended September 30, 2016 as compared to the three month period ended September 30, 2015

Revenues for the three month period ended September 30, 2016 were \$34,930,000, an increase of \$13,248,000 or 61% from the \$21,682,000 reported during the same period in 2015. The increase in revenues was attributable to an increase in refrigerant revenues of \$13,217,000 and an increase in RefrigerantSide® Services revenues of \$31,000. 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 \$8,421,000, as well as an increase in the number of pounds of certain refrigerants sold, which accounted for an increase in revenues of \$4,796,000. The increase in RefrigerantSide® Services was primarily attributable to an increase in the average selling price per job completed in the three month period ended September 30, 2016 compared to the same period of 2015 offset by a decrease in the number of jobs completed in the three month period ended September 30, 2016 compared to the same period in 2015.

Cost of sales for the three month period ended September 30, 2016 was \$22,890,000 or 66% of sales. The cost of sales for the three month period ended September 30, 2015 was \$17,298,000 or 80% of sales. The decrease in the cost of sales percentage from 80% for the three month period ended September 30, 2015 to 66% for the same period in 2016 is primarily due to the increase in the selling price per pound of certain refrigerants sold for the three month period ended September 30, 2016 compared to the same period in 2015.

Operating expenses for the three month period ended September 30, 2016 were \$4,022,000, an increase of \$1,540,000 from the \$2,482,000 reported during the same period in 2015. The increase in operating expenses is primarily due to increases in stock compensation expense, earnout liability and professional fees in 2016 as compared to the same period in 2015.

Interest expense for the three month period ended September 30, 2016 was \$296,000, compared to the \$157,000 reported during the same period in 2015. The increase in interest expense is due to increased borrowings under the PNC Credit Facility.

Income tax expense for the three month period ended September 30, 2016 was \$2,933,000 compared to income tax expense for the same period in 2015 of \$663,000. The \$2,270,000 increase was attributable to higher Income before income taxes for 2016 as compared to the same period in 2015. For 2016 and 2015, the income tax expense was for federal and state income tax at statutory rates applied to the Income before income taxes.

Net income for the three month period ended September 30, 2016 was \$4,789,000, an increase of \$3,707,000 from the \$1,082,000 net income reported during the same period in 2015, primarily due to the increase in revenues and gross margin partially offset by an increase in operating expenses and income tax expense.

Nine month period ended September 30, 2016 as compared to the nine month period ended September 30, 2015

Revenues for the nine month period ended September 30, 2016 were \$97,701,000, an increase of \$25,279,000 or 35% from the \$72,422,000 reported during the same period in 2015. The increase in revenues was attributable to an increase in refrigerant revenues of \$25,321,000, offset slightly by a decrease in RefrigerantSide® Services revenues of \$42,000. 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 \$18,369,000, as well as an increase in the number of pounds of certain refrigerants sold, which accounted for an increase in revenues of \$6,952,000. The decrease in RefrigerantSide® Services was primarily attributable to a decrease in the number of jobs completed in the nine month period ended September 30, 2016 compared to the same period in 2015, offset by an increase in the average selling price per job completed in the nine month period ended September 30, 2016 as compared to the same period in 2015.

Cost of sales for the nine month period ended September 30, 2016 was \$67,649,000 or 69% of sales. The cost of sales for the nine month period ended September 30, 2015 was \$55,301,000 or 76% of sales. The decrease in the cost of sales percentage from 76% for the nine month period ended September 30, 2015 to 69% for the same period in 2016 is primarily due to the increase in the selling price per pound of certain refrigerants sold for the nine month period ended September 30, 2016 compared to the same period in 2015.

Operating expenses for the nine month period ended September 30, 2016 were \$8,872,000, an increase of \$1,684,000 from the \$7,188,000 reported during the same period in 2015. The increase in operating expenses is primarily due to an increase in stock compensation expense, earnout liability and professional fees in 2016 as compared to the same period in 2015.

Interest expense for the nine month period ended September 30, 2016 was \$919,000, compared to the \$600,000 reported during the same period in 2015. The increase in interest expense is due to increased borrowings under the PNC Credit Facility.

Income tax expense for the nine month period ended September 30, 2016 was \$7,699,000 compared to income tax expense for the nine month period ended September 30, 2015 of \$3,547,000. The \$4,152,000 increase was attributable to higher Income before income taxes for 2016 as compared to the same period in 2015. For 2016 and 2015 the income tax expense was for federal and state income tax at statutory rates applied to the Income before income taxes.

Net income for the nine month period ended September 30, 2016 was \$12,562,000, an increase of \$6,776,000 from the \$5,786,000 net income reported during the same period in 2015, 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, 2016, the Company had working capital, which represents current assets less current liabilities, of \$56,259,000, an increase of \$17,750,000 from the working capital of \$38,509,000 at December 31, 2015. The increase in working capital is primarily attributable to increased net income.

Inventory and trade receivables are principal components of current assets. At September 30, 2016, the Company had inventories of \$66,584,000, an increase of \$4,687,000 from \$61,897,000 at December 31, 2015. The increase in the inventory balance is primarily due 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, 2016, the Company had trade receivables, net of allowance for doubtful accounts, of \$9,232,000, an increase of \$4,818,000 from \$4,414,000 at December 31, 2015. 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 by operating activities for the nine month period ended September 30, 2016, was \$7,441,000 compared with net cash used in operating activities of \$5,499,000 for the same period in 2015. Net cash provided by operating activities for the 2016 period was primarily attributable to net income, the utilization of the deferred tax asset and an increase in income taxes payable, offset by increases in accounts receivable and inventory.

Net cash used in investing activities for the nine month period ended September 30, 2016, was \$877,000 compared with net cash used in investing activities of \$3,078,000 for the same period in 2015. The net cash used in investing activities for the 2016 period was primarily related to investment in general purpose equipment for the Company's reclamation facilities. The net cash used in 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 reclamation facilities.

Net cash used in financing activities for the nine month period ended September 30, 2016, was \$3,846,000 compared with net cash provided by financing activities of \$8,682,000 for the same period in 2015. The net cash used in by financing activities for the 2016 period was primarily due to the repayment of debt, partially offset by proceeds from the issuance of common stock from the exercise of options and warrants.

At September 30, 2016, the Company had cash and cash equivalents of \$3,976,000. 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 following is a summary of the Company's significant contractual cash obligations for the periods indicated that existed as of September 30, 2016 (in 000's):

	Twelve Month Periods Ending September 30,					
Long and short term debt and capital lease obligations:	2017	2018	2019	2020	2021	Total
Principal	\$15,276	\$81	\$54	\$4,010	\$4	\$ 19,425
Estimated interest (1)	680	672	667	500	—	2,519
Operating leases	1,385	797	373	317	220	3,092
Acquisition earn out /License payable	1,458	—	—	—	—	1,458
Total contractual cash obligations	\$18,799	\$ 1,550	\$ 1,094	\$ 4,827	\$ 224	\$ 26,494

(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. The Maximum Loan Amount (as defined in the PNC Facility) is currently \$50,000,000, and the Maximum Revolving Advance Amount (as defined in the PNC Facility) is 46,000,000. The Termination Date of the Facility (as defined in the PNC Facility) is June 30, 2020.

Under the terms of the original PNC Facility, as amended by the First Amendment to the PNC Facility, dated February 15, 2013, Hudson could initially 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.

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 co