

HUDSON TECHNOLOGIES INC /NY  
Form 10-K  
March 16, 2015

**UNITED STATES**

**Securities and Exchange Commission**

**Washington, D.C. 20549**

**Form 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 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)

<b>New York</b> (State or Other Jurisdiction of Incorporation or Organization) P.O. Box 1541 <b>One Blue Hill Plaza</b> <b>Pearl River, New York</b> (Address of Principal Executive Offices)	<b>13-3641539</b> (I.R.S. Employer Identification No.)  <b>10965</b> (Zip Code)  <b>(845) 735-6000</b>
--	--

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each Exchange on which Registered</u>
Common stock, \$.01 par value	The NASDAQ Stock Market LLC (NASDAQ Capital Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act "  
**Yes x No**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act

" **Yes x No**

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of

this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **x Yes** " **No**

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. **x**

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 **x**

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

The aggregate market value of registrant's common stock held by non-affiliates at June 30, 2014 was approximately \$73,995,626. As of March 9, 2015 there were 32,325,276 shares of the registrant's common stock outstanding.

Documents incorporated by reference: **None**

**Hudson Technologies, Inc.****Index**

<b><u>Part</u></b>	<b><u>Item</u></b>	<b>Page</b>
Part I.	Item 1 - <u>Business</u>	3
	Item 1A <u>Risk Factors</u>	8
	-	
	Item 1B <u>Unresolved Staff Comments</u>	11
	-	
	Item 2 - <u>Properties</u>	11
	Item 3 - <u>Legal Proceedings</u>	12
	Item 4 - <u>Mine Safety Disclosures</u>	12
Part II.	Item 5 - <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	13
	Item 6 - <u>Selected Financial Data</u>	13
	Item 7 - <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	13
	Item 7A <u>Quantitative and Qualitative Disclosures About Market Risk</u>	19
	-	
	Item 8 - <u>Financial Statements and Supplementary Data</u>	20
	Item 9 - <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	20
	Item 9A <u>Controls and Procedures</u>	20
	-	
	Item 9B <u>Other Information</u>	20
	-	
Part III.	Item 10 - <u>Directors, Executive Officers and Corporate Governance</u>	21
	Item 11 - <u>Executive Compensation</u>	23
	Item 12 - <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	28
	Item 13 - <u>Certain Relationships and Related Transactions, and Director Independence</u>	30
	Item 14 - <u>Principal Accountant Fees and Services</u>	30
Part IV.	Item 15 - <u>Exhibits and Financial Statement Schedules</u>	32
	<u>Signatures</u>	54



## Part I

### Item 1. Business

#### General

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, and include (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<sup>SM</sup> 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.

The Company's executive offices are located at One Blue Hill Plaza, Pearl River, New York and its telephone number is (845) 735-6000.

#### Industry Background

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, hydro chlorofluorocarbon ("HCFC") and hydro fluorocarbon ("HFC") refrigerants and reclaimable, primarily HCFC, HFC and chlorofluorocarbon ("CFC") refrigerants from suppliers and its customers. Effective January 1, 1996, the Clean Air Act, as amended (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. As a result of litigation, the federal regulations implementing the January 2010 phase down schedule were vacated, and in April 2013, the Environmental Protection Agency ("EPA") published a final rule providing for the production or importation of 63 million and 51 million pounds of HCFC-22 in 2013 and 2014,

respectively. The Company believes that the production permitted by the final rule created an oversupply of HCFC-22 during the 2013 cooling season. The Company believes that this oversupply resulted in a reduction in the market price of HCFC-22 during 2013, which resulted in the Company having to record a lower of cost or market adjustment in the amount of \$14,700,000 for the three and nine months ended September 30, 2013 (the "LCM"). On October 16, 2014, the Administrator of the EPA signed a final rule providing further reductions in the production and consumption allowances for virgin HCFC refrigerants for the years 2015 through 2019 (the "Final Rule"). In the Final Rule, the EPA has established a linear annual phase down schedule for the production or importation of virgin HCFC-22 that will start at approximately 22 million pounds in 2015 and reduce by approximately 4.5 million pounds each year and end at zero in 2020.

HFC refrigerants are used as substitutes for CFC and HCFC refrigerants in certain applications. As a result of the increasing restrictions and limitations on the production and use of CFC and HCFC refrigerants, various segments of the air conditioning and refrigeration industry have been replacing or modifying equipment that utilize CFC and HCFC refrigerants and have been transitioning to equipment that utilize HFC refrigerants and a certain type of HFC's known as hydrofluoro-olefins ("HFO"). HFC refrigerants are not ozone depleting chemicals and are not currently regulated under the Act. However, certain HFC refrigerants are highly weighted greenhouse gases that are believed to contribute to global warming and climate change and, as a result, are now subject to various state and federal regulations relating to the sale, use and emissions of HFC refrigerants. In addition, federal legislation has been proposed that, if enacted, would impose limitations on the production and importation of certain virgin HFC refrigerants. The Company expects that HFC refrigerants eventually will be replaced by HFOs or other types of products with lower global warming potentials.

The Act, and the federal regulations enacted under authority of the Act, have mandated and/or promoted responsible use practices in the air conditioning and refrigeration industry, which are intended to minimize the release of refrigerants into the atmosphere and encourage the recovery and re-use of refrigerants. The Act prohibits the venting of CFC, HFC and HCFC refrigerants, and prohibits and/or phases down the production of CFC and HCFC refrigerants. The Act also mandates the recovery of CFC and HCFC refrigerants and also promotes and encourages re-use and reclamation of CFC and HCFC refrigerants. Under the Act, owners, operators and companies servicing cooling equipment are responsible for the integrity of the systems regardless of the refrigerant being used.

## Products and Services

From its inception, the Company has sold refrigerants, and has provided refrigerant reclamation and refrigerant management services that are designed to recover and reuse refrigerants, thereby protecting the environment from release to the atmosphere and the corresponding ozone depletion and global warming impact. The reclamation process allows the refrigerant to be re-used thereby eliminating the need to destroy or manufacture additional refrigerant and eliminating the corresponding impact to the environment associated with the destruction and manufacturing. The Company believes it is the largest refrigerant reclaimer in the United States. Additionally, the Company has created alternative solutions to reactive and preventative maintenance procedures that are performed on commercial and industrial refrigeration systems. These services, known as RefrigerantSide® Services, complement the Company's refrigerant sales and refrigerant reclamation and management services. The Company has also developed Performance Optimization services that identify inefficiencies in the operation of air conditioning and refrigeration systems and assists companies to improve the efficiency of their systems and save energy. In addition, the Company is pursuing potential opportunities for the creation and monetization of verified emission reductions.

## Refrigerant Sales

The Company sells reclaimed and virgin (new) refrigerants to a variety of customers in various segments of the air conditioning and refrigeration industry. The Company continues to sell reclaimed CFC based refrigerants, which are no longer manufactured. Virgin, non-CFC refrigerants, including HCFC and HFC refrigerants, are purchased by the Company from several suppliers and resold by the Company, typically at wholesale. Additionally, the Company regularly purchases used or contaminated refrigerants, some of which are CFC based, from many different sources, which refrigerants are then reclaimed using the Company's high speed proprietary reclamation equipment, its proprietary Zugibeast® system, and then are resold by the Company.

## Refrigerant Management Services

The Company provides a complete offering of refrigerant management services, which primarily include reclamation of refrigerants, laboratory testing through the Company's laboratory, which has been certified by the Air Conditioning, Heating and Refrigeration Institute ("AHRI"), and banking (storage) services tailored to individual customer requirements. Hudson also separates "crossed" (i.e. commingled) refrigerants and provides re-usable cylinder refurbishment and hydrostatic testing services.

## RefrigerantSide® Services



The Company provides decontamination and recovery services that are performed at a customer's site through the use of portable, high volume, high-speed proprietary equipment, including the patented Zugibeast® system. Certain of these RefrigerantSide® Services, which encompass system decontamination, and refrigerant recovery and reclamation are also proprietary and are covered by process patents.

In addition to the decontamination and recovery services previously described, the Company also provides predictive and diagnostic services for its customers. The Company offers diagnostic services that are intended to predict potential problems in air conditioning and refrigeration systems before they occur. The Company's Chiller Chemistry® offering integrates several fluid tests of an operating system and the corresponding laboratory results into an engineering report providing its customers with an understanding of the current condition of the fluids, the cause for any abnormal findings and the potential consequences if the abnormal findings are not remediated. Fluid Chemistry®, an abbreviated version of the Company's Chiller Chemistry® offering, is designed to quickly identify systems that require further examination.

The Company also delivers global energy services ("GES") offerings to large industrial and commercial companies both in the United States and internationally. A large portion of its GES business involves the performance of "investment grade" Energy Savings Assessments ("ESAs") for process and utility systems including steam, refrigeration and process cooling, process heating, waste heat recovery, and combined heat and power systems. These assessments can identify significant energy and cost savings projects for customers that lead to a direct reduction in carbon dioxide ("CO<sub>2</sub>") emissions from the site or from the power plants. The Company's GES division is staffed by engineers that are recognized as Energy Experts and Qualified Best Practices Specialists by the United States Department of Energy ("DOE") in the areas of Steam and Process Heating under the DOE "Best Practices" program, and are the Lead International Energy Experts for steam systems for the United Nations Industrial Development Organization. The Company's staff have trained more than 2,500 industrial plant personnel in the US and internationally, and have developed and are currently delivering training curriculums in 10 different countries.

The Company has also been awarded several US patents for its Performance Monitoring & Optimization System (“PMOS”), which is a system for measuring, modifying and improving the efficiency of energy systems, including air conditioning and refrigeration systems, in industrial and commercial applications. The Company’s PMOS is able to identify specific inefficiencies in the operation of refrigeration systems and, when used with Hudson’s RefrigerantSide® Services, can increase the efficiency of the operating systems thereby reducing energy usage and costs. Improving the system efficiency reduces power consumption thereby directly reducing CO<sub>2</sub> emissions at the power plants or onsite. In addition, the Company’s ChillSmart® offering, which combines the PMOS methodology with the Company’s Chiller Chemistry® offering, provides a snapshot of a packaged chiller’s operating efficiency and health. ChillSmart® provides a very effective predictive maintenance tool and helps our customers to identify the operating chillers that cause higher operating costs. 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. SmartEnergy OPS™ complements the Company’s ChillSmart® offering and enables customers to monitor and improve chiller performance and proactively identify and correct system inefficiencies.

### *Carbon Offset Projects*

CFC refrigerants are ozone depleting substances and are also highly weighted greenhouse gases that contribute to global warming and climate change. The destruction of CFC refrigerants may be eligible for verified emission reductions that can be converted and monetized into carbon offset credits that may be traded in the emerging carbon offset markets. The Company is pursuing opportunities to acquire CFC refrigerants and is developing relationships within the emerging environmental markets in order to develop opportunities for the creation and monetization of verified emission reductions from the destruction of CFC refrigerants.

### Hudson's Network

Hudson operates from a network of facilities located in:

Pearl River, New York	—Company headquarters and administrative offices
Brentwood, Tennessee	—Administrative offices
Champaign, Illinois	—Reclamation and separation of refrigerants and cylinder refurbishment center; RefrigerantSide® Service depot
Nashville, Tennessee	—Reclamation and separation of refrigerants and cylinder refurbishment center
Ontario, California	—Reclamation and cylinder refurbishment center
San Juan, Puerto Rico	—Reclamation center and RefrigerantSide® Service depot
Auburn, Washington	—RefrigerantSide® Service depot
Baton Rouge, Louisiana	—RefrigerantSide® Service depot

Charlotte, North Carolina	—RefrigerantSide® Service depot
Escondido, California	—RefrigerantSide® Service depot
Stony Point, New York	—RefrigerantSide® Service depot
Tulsa, Oklahoma	—Energy and Carbon Services
Hampstead, New Hampshire	—Telemarketing office
Pottsboro, Texas	—Telemarketing office

### Strategic Alliances

The Company believes that the international market for refrigerant reclamation, sales and services is equal in size to the United States market for those sales and services. The Company has Alliances in Europe and South Africa, and over time, the Company expects to introduce its technology and offerings to several other markets around the world.

### Suppliers

The Company's financial performance and its ability to sell refrigerants is in part dependent on its ability to obtain sufficient quantities of virgin, non-CFC based refrigerants, and of reclaimable CFC and non-CFC based, refrigerants from manufacturers, wholesalers, distributors, bulk gas brokers and from other sources within the air conditioning, refrigeration and automotive aftermarket industries, and on corresponding demand for refrigerants. The Company's refrigerant sales include CFC based refrigerants, which are no longer manufactured. Additionally, the Company's refrigerant sales include non-CFC based refrigerants, including HCFC and HFC refrigerants, which are the most-widely used refrigerants. Effective January 1, 1996, the Act limited the production of virgin HCFC refrigerants, which production was further limited in January 2004. Federal regulations enacted in January 2004 established production and consumption allowances for HCFCs and imposed limitations on the importation of certain virgin HCFC refrigerants. Under the Act, production of certain virgin HCFC refrigerants is scheduled to be phased out during the period 2010 through 2020 and production of all virgin HCFC refrigerants is scheduled to be phased out by 2030. On October 16, 2014, the Administrator of the EPA signed a final rule providing further reductions in the production and consumption allowances for virgin HCFC refrigerants for the years 2015 through 2019 (the "Final Rule"). In the Final Rule, the EPA has established a linear annual phase down schedule for the production or importation of virgin HCFC-22 that will start at approximately 22 million pounds in 2015 and reduce by approximately 4.5 million pounds each year and end at zero in 2020.

## Customers

The Company provides its services to commercial, industrial and governmental customers, as well as to refrigerant wholesalers, distributors, contractors and to refrigeration equipment manufacturers. Agreements with larger customers generally provide for standardized pricing for specified services.

For the year ended December 31, 2014, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 25% of the Company's revenues. At December 31, 2014, there were \$688,000 in outstanding receivables from these customers.

For the year ended December 31, 2013, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 23% of the Company's revenues. At December 31, 2013, there were \$344,000 in outstanding receivables from these customers.

## Marketing

Marketing programs are conducted through the efforts of the Company's executive officers, Company sales personnel, and third parties. Hudson employs various marketing methods, including direct mailings, technical bulletins, in-person solicitation, print advertising, response to quotation requests and the internet through the Company's website ([www.hudsontech.com](http://www.hudsontech.com)). Information in the Company's website is not part of this report.

The Company's sales personnel are compensated on a combination of a base salary and commission. The Company's executive officers devote significant time and effort to customer relationships.

## Competition

The Company competes primarily on the basis of the performance of its proprietary high volume, high-speed equipment used in its operations, the breadth of services offered by the Company, including proprietary RefrigerantSide® Services and other on-site services, and price, particularly with respect to refrigerant sales.

The Company competes with numerous regional and national companies that market reclaimed and virgin refrigerants and provide refrigerant reclamation services. Certain of these competitors possess greater financial, marketing, distribution and other resources for the sale and distribution of refrigerants than the Company and, in some instances, serve a more extensive geographic area than the Company.

Hudson's RefrigerantSide® Services provide new and innovative solutions to certain problems within the refrigeration industry and, as such, the demand and market acceptance for these services are subject to uncertainty. Competition for these services primarily consists of traditional methods of solving the industry's problems. The Company's marketing strategy is to educate the marketplace that its alternative solutions are available and that RefrigerantSide® Services are superior to traditional methods. The market acceptance for these services is subject to uncertainty.

### Insurance

The Company carries insurance coverage that it considers sufficient to protect the Company's assets and operations. The Company currently maintains general commercial liability insurance and excess liability coverage for claims up to \$11,000,000 per occurrence and \$12,000,000 in the aggregate. The Company attempts to operate in a professional and prudent manner and to reduce potential liability risks through specific risk management efforts, including ongoing employee training.

The refrigerant industry involves potentially significant risks of statutory and common law liability for environmental damage and personal injury. The Company, and in certain instances, its officers, directors and employees, may be subject to claims arising from the Company's on-site or off-site services, including the improper release, spillage, misuse or mishandling of refrigerants classified as hazardous or non-hazardous substances or materials. The Company may be held strictly liable for damages, which could be substantial, regardless of whether it exercised due care and complied with all relevant laws and regulations.

Hudson maintains environmental impairment insurance of \$10,000,000 per occurrence, and \$10,000,000 annual aggregate, for events occurring subsequent to November 1996.

## Government Regulation

The business of refrigerant sales, reclamation and management is subject to extensive, stringent and frequently changing federal, state and local laws and substantial regulation under these laws by governmental agencies, including the EPA, the United States Occupational Safety and Health Administration (“OSHA”) and the United States Department of Transportation (“DOT”).

Among other things, these regulatory authorities impose requirements which regulate the handling, packaging, labeling, transportation and disposal of hazardous and non-hazardous materials and the health and safety of workers, and require the Company and, in certain instances, its employees, to obtain and maintain licenses in connection with its operations. This extensive regulatory framework imposes significant compliance burdens and risks on the Company.

Hudson and its customers are subject to the requirements of the Act, and the regulations promulgated thereunder by the EPA, which make it unlawful for any person in the course of maintaining, servicing, repairing, and disposing of air conditioning or refrigeration equipment, to knowingly vent or otherwise release or dispose of ozone depleting substances, and non-ozone depleting substitutes, used as refrigerants.

Pursuant to the Act, reclaimed refrigerant must satisfy the same purity standards as newly manufactured, virgin refrigerants in accordance with standards established by AHRI prior to resale to a person other than the owner of the equipment from which it was recovered. The EPA administers a certification program pursuant to which applicants certify to reclaim refrigerants in compliance with AHRI standards. The Company is one of only three certified refrigerant testing laboratories under AHRI’s laboratory certification program, which is a voluntary program that certifies the ability of a laboratory to test refrigerant in accordance with the AHRI 700 standard.

In addition, the EPA has established a mandatory certification program for air conditioning and refrigeration technicians. Hudson's technicians have applied for or obtained such certification.

The Company may also be subject to regulations adopted by the EPA which impose certain reporting requirements arising out of the importation of certain HCFCs, and arising out of the importation, purchase, production, use and/or emissions of certain greenhouse gases, including HFCs.

The Company is also subject to regulations adopted by the DOT which classify most refrigerants handled by the Company as hazardous materials or substances and imposes requirements for handling, packaging, labeling and

transporting refrigerants and which regulate the use and operation of the Company's commercial motor vehicles used in the Company's business.

The Resource Conservation and Recovery Act of 1976, as amended ("RCRA"), requires facilities that treat, store or dispose of hazardous wastes to comply with certain operating standards. Before transportation and disposal of hazardous wastes off-site, generators of such waste must package and label their shipments consistent with detailed regulations and prepare a manifest identifying the material and stating its destination. The transporter must deliver the hazardous waste in accordance with the manifest to a facility with an appropriate RCRA permit. Under RCRA, impurities removed from refrigerants consisting of oils mixed with water and other contaminants are not presumed to be hazardous waste.

The Emergency Planning and Community Right-to-Know Act of 1986, as amended, requires the annual reporting by the Company of Emergency and Hazardous Chemical Inventories (Tier II reports) to the various states in which the Company operates and requires the Company to file annual Toxic Chemical Release Inventory Forms with the EPA.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), establishes liability for clean-up costs and environmental damages to current and former facility owners and operators, as well as persons who transport or arrange for transportation of hazardous substances. Almost all states have similar statutes regulating the handling and storage of hazardous substances, hazardous wastes and non-hazardous wastes. Many such statutes impose requirements that are more stringent than their federal counterparts. The Company could be subject to substantial liability under these statutes to private parties and government entities, in some instances without any fault, for fines, remediation costs and environmental damage, as a result of the mishandling, release, or existence of any hazardous substances at any of its facilities.

The Occupational Safety and Health Act of 1970, as amended mandates requirements for a safe work place for employees and special procedures and measures for the handling of certain hazardous and toxic substances. State laws, in certain circumstances, mandate additional measures for facilities handling specified materials.

The Company believes that it is in material compliance with all applicable regulations material to its business operations.

## Quality Assurance & Environmental Compliance

The Company utilizes in-house quality and regulatory compliance control procedures. Hudson maintains its own analytical testing laboratory, which is AHRI certified, to assure that reclaimed refrigerants comply with AHRI purity standards and employs portable testing equipment when performing on-site services to verify certain quality specifications. The Company employs ten persons engaged full-time in quality control and to monitor the Company's operations for regulatory compliance.

## Employees

On December 31, 2014, the Company had 129 full and 2 part time employees including air conditioning and refrigeration technicians, chemists, engineers, sales and administrative personnel.

None of the Company's employees are represented by a union. The Company believes that its employee relations are good.

## Patents and Proprietary Information

The Company's United States patent and its foreign patents relating to the high-speed equipment, components and process to reclaim refrigerants expired between May 2014 and December 2014. The Company holds several U.S. and foreign patents, as well as pending patent applications, related to certain RefrigerantSide® Services and supporting systems developed by the Company for systems and processes for measuring and improving the efficiency of refrigeration systems, and for certain refrigerant recycling and reclamation technologies. These patents will expire between February 2017 and April 2032.

The Company believes that patent protection is important to its business. There can be no assurance as to the breadth or degree of protection that patents may afford the Company, that any patent applications will result in issued patents or that patents will not be circumvented or invalidated. Technological development in the refrigerant industry may result in extensive patent filings and a rapid rate of issuance of new patents. Although the Company believes that its existing patents and the Company's equipment do not and will not infringe upon existing patents or violate proprietary rights of others, it is possible that the Company's existing patent rights may not be valid or that infringement of existing or future patents or violations of proprietary rights of others may occur. In the event the Company's equipment or processes infringe, or are alleged to infringe, patents or other proprietary rights of others, the Company may be required to modify the design of its equipment or processes, obtain a license or defend a possible patent



infringement action. There can be no assurance that the Company will have the financial or other resources necessary to enforce or defend a patent infringement or proprietary rights violation action or that the Company will not become liable for damages.

The Company also relies on trade secrets and proprietary know-how, and employs various methods to protect its technology. However, such methods may not afford complete protection and there can be no assurance that others will not independently develop such know-how or obtain access to the Company's know-how, concepts, ideas and documentation. Failure to protect its trade secrets could have a material adverse effect on the Company.

### **Item 1A. Risk Factors**

There are many important factors, including those discussed below (and above as described under “Patents and Proprietary Information”), that have affected, and in the future could affect Hudson’s business including, but not limited to, the factors discussed below, which should be reviewed carefully together with the other information contained in this report. Some of the factors are beyond Hudson’s control and future trends are difficult to predict.

#### ***Our existing and future debt obligations could impair our liquidity and financial condition.***

Our existing credit facility, which currently expires in June 2018, is secured by substantially all of our assets and contains formulas that limit the amount of our borrowings under the facility. Moreover, the terms of our credit facility also include negative covenants that, among other things, may limit our ability to incur additional indebtedness. If we violate any loan covenants and do not obtain a waiver from our lender, our indebtedness under the credit facility would become immediately due and payable, and the lender could foreclose on its security, which could materially adversely affect our business and future financial condition and could require us to curtail or otherwise cease our existing operations.

#### ***We may need additional financing to satisfy our future capital requirements, which may not be readily available to us.***

Our capital requirements may be significant in the future. In the future, we may incur additional expenses in the development and implementation of our operations. Due to fluctuations in the price, demand and availability of new refrigerants, our existing credit facility that expires in June 2018 may not in the future be sufficient to provide all of the capital that we need to acquire and manage our inventories of new refrigerant. As a result, we may be required to seek additional equity or debt financing in order to develop our RefrigerantSide® Services business our refrigerant sales business and our other businesses. We have no current arrangements with respect to, or sources of, additional financing other than our existing credit facility. There can be no assurance that we will be able to obtain any additional financing on terms acceptable to us or at all. Our inability to obtain financing, if and when needed, could materially

adversely affect our business and future financial condition and could require us to curtail or otherwise cease our existing operations.

***Adverse weather or economic downturn could adversely impact our financial results***

Our business could be negatively impacted by adverse weather or economic downturns. Weather is a significant factor in determining market demand for the refrigerants sold by us, and to a lesser extent, our RefrigerantSide® Services. Unusually cool temperatures in the spring and summer tend to depress demand for, and price of, refrigerants we sell. Protracted periods of cooler than normal spring and summer weather could result in a substantial reduction in our sales which could adversely affect our financial position as well as our results of operations. An economic downturn could cause customers to postpone or cancel purchases of the Company's products or services. Either or both of these conditions could have severe negative implications to our business that may exacerbate many of the risk factors we identified in this report but not limited, to the following:

*Liquidity*

These conditions could reduce our liquidity and this could have a negative impact on our financial condition and results of operations.

*Demand*

These conditions could lower the demand and/or price for our product and services, which would have a negative impact on our results of operations.

***The nature of our business exposes us to potential liability.***

The refrigerant recovery and reclamation industry involves potentially significant risks of statutory and common law liability for environmental damage and personal injury. We, and in certain instances, our officers, directors and employees, may be subject to claims arising from our on-site or off-site services, including the improper release, spillage, misuse or mishandling of refrigerants classified as hazardous or non-hazardous substances or materials. We may be strictly liable for damages, which could be substantial, regardless of whether we exercised due care and complied with all relevant laws and regulations. Our current insurance coverage may not be sufficient to cover potential claims, and adequate levels of insurance coverage may not be available in the future at a reasonable cost. A partially or completely uninsured claim against us, if successful and of sufficient magnitude would have a material adverse effect on our business and financial condition.

***Our business and financial condition is substantially dependent on the sale and continued environmental regulation of refrigerants.***

Our business and prospects are largely dependent upon continued regulation of the use and disposition of refrigerants. Changes in government regulations relating to the emission of refrigerants into the atmosphere could have a material adverse effect on us. Failure by government authorities to otherwise continue to enforce existing regulations or significant relaxation of regulatory requirements could also adversely affect demand for our services and products.

***Our business is subject to significant regulatory compliance burdens.***

The refrigerant reclamation and management business is subject to extensive, stringent and frequently changing federal, state and local laws and substantial regulation under these laws by governmental agencies, including the EPA, the OSHA and DOT. Although we believe that we are in material compliance with all applicable regulations material to our business operations, amendments to existing statutes and regulations or adoption of new statutes and regulations which affect the marketing and sale of refrigerant could require us to continually alter our methods of operation and/or discontinue the sale of certain of our products resulting in costs to us that could be substantial. We may not be able, for financial or other reasons, to comply with applicable laws, regulations and permit requirements, particularly as we seek to enter into new geographic markets. Our failure to comply with applicable laws, rules or regulations or permit requirements could subject us to civil remedies, including substantial fines, penalties and injunctions, as well as possible criminal sanctions, which would, if of significant magnitude, materially adversely impact our operations and future financial condition.

***A number of factors could negatively impact the price and/or availability of refrigerants, which would, in turn, adversely affect our business and financial condition.***

Refrigerant sales continue to represent a significant portion of our revenues. Therefore, our business is substantially dependent on the availability of both new and used refrigerants in large quantities, which may be affected by several factors including, without limitation: (i) commercial production and consumption limitations imposed by the Act and legislative limitations and ban on HCFC refrigerants; (ii) the ban on production of CFC based refrigerants under the Act; (iii) the proposed legislation which, if enacted, could impose limitations on production and consumption of HFC refrigerants; (iv) introduction of new refrigerants and air conditioning and refrigeration equipment; (v) price competition resulting from additional market entrants; (vi) changes in government regulation on the use and production of refrigerants; and (vii) reduction in demand for refrigerants. We do not maintain firm agreements with any of our suppliers of refrigerants and we do not hold allowances permitting us to purchase and import HCFC refrigerants from abroad. Sufficient amounts of new and/or used refrigerants may not be available to us in the future, particularly as a result of the further phase down of HCFC production, or may not be available on commercially reasonable terms. Additionally, we may be subject to price fluctuations, periodic delays or shortages of new and/or used refrigerants. Our failure to obtain and resell sufficient quantities of virgin refrigerants on commercially reasonable terms, or at all, or to obtain, reclaim and resell sufficient quantities of used refrigerants would have a material adverse effect on our operating margins and results of operations.

***As a result of competition, and the strength of some of our competitors in the market, we may not be able to compete effectively.***

The markets for our services and products are highly competitive. We compete with numerous regional and national companies which provide refrigerant recovery and reclamation services, as well as companies which market and deal in new and reclaimed alternative refrigerants, including certain of our suppliers, some of which possess greater financial, marketing, distribution and other resources than us. We also compete with numerous manufacturers of refrigerant recovery and reclamation equipment. Certain of these competitors have established reputations for success in the service of air conditioning and refrigeration systems. We may not be able to compete successfully, particularly as we seek to enter into new markets.

***Issues relating to potential global warming and climate change could have an impact on our business.***

Refrigerants are considered to be strong greenhouse gases that are believed to contribute to global warming and climate change and are now subject to various state and federal regulations relating to the sale, use and emissions of refrigerants. In addition, federal legislation has been proposed that, if enacted, would impose limitations on the production and importation of certain virgin HFC refrigerants, and current and future global warming and climate change or related legislation and/or regulations may impose additional compliance burdens on us and on our customers and suppliers which could potentially result in increased administrative costs, decreased demand in the

marketplace for our products, and/or increased costs for our supplies and products.

*The loss of key management personnel would adversely impact our business.*

Our success is largely dependent upon the efforts of our Chief Executive Officer and Chairman. The loss of his services would have a material adverse effect on our business and prospects.

*We have the ability to designate and issue preferred stock, which may have rights, preferences and privileges greater than Hudson's common stock and which could impede a subsequent change in control of us.*

Our Certificate of Incorporation authorizes our Board of Directors to issue up to 5,000,000 shares of "blank check" preferred stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of these shares, without further shareholder approval. The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of holders of any additional preferred stock that may be issued by us in the future. Our ability to issue preferred stock without shareholder approval could have the effect of making it more difficult for a third party to acquire a majority of our voting stock, thereby delaying, deferring or preventing a change in control of us.

*If our common stock were delisted from NASDAQ it would be subject to "penny stock" rules which could negatively impact its liquidity and our shareholders' ability to sell their shares.*

Our common stock is currently listed on the NASDAQ Capital Market. We must comply with numerous NASDAQ Marketplace rules in order to continue the listing of our common stock on NASDAQ. There can be no assurance that we can continue to meet the rules required to maintain the NASDAQ listing of our common stock. If we are unable to maintain our listing on NASDAQ, the market liquidity of our common stock may be severely limited.

**Our management effectively controls our affairs.**

Currently, our officers and directors collectively own approximately 20% of our outstanding common stock. Accordingly, our officers and directors are in a position to significantly affect major corporate transactions and the election of our directors. There is no provision for cumulative voting for our directors.

*We may fail to successfully integrate any acquisitions made by us into our operations.*

As part of our business strategy, we may look for opportunities to grow by acquiring other product lines, technologies or facilities that complement or expand our existing business. We may be unable to identify suitable acquisition candidates or negotiate acceptable terms. In addition, we may not be able to successfully integrate any assets, liabilities, customers, systems or management personnel we may acquire into our operations and we may not be able to realize related revenue synergies and cost savings within expected time frames. There can be no assurance that we will be able to successfully integrate any prior or future acquisition.

### **Item 1B. Unresolved Staff Comments**

Not Applicable

### **Item 2. Properties**

The Company's headquarters are located in a 4,200 square foot office facility located in a multi-tenant building in Pearl River, New York. The building is leased from an unaffiliated third party at an annual rental of \$93,000 pursuant to an agreement expiring in August 2018.

The Company's Brentwood, Tennessee facility is a 5,500 square foot office facility in a multi-tenant building sub-leased from an unaffiliated third party at an annual rental of \$70,000 pursuant to a month to month sub-lease agreement.

The Company's Champaign, Illinois facility is located in a 48,000 square foot building, which was purchased by the Company in May 2005 for \$999,999. 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 December 31, 2014, the Company has \$437,000 outstanding under this mortgage and the annual real estate taxes on this facility are approximately \$43,000.

The Company has established a second facility in Champaign, Illinois, which is a 76,000 square foot facility located in an approximately 130,000 square foot building. The building is leased from an unaffiliated third party at an annual

rental of \$340,000, pursuant to an arrangement expiring in December 2017.

The Company's Nashville, Tennessee facility is a 33,000 square foot office facility leased from an unaffiliated third party at an annual rental of \$143,000 pursuant to an agreement expiring in February 2016.

The Company's Ontario, California facility is a 20,000 square foot facility leased from an unaffiliated third party at an annual rental of \$85,000 pursuant to an agreement expiring in December 2018.

The Company's San Juan, Puerto Rico facility is an 8,000 square foot facility which is sub-leased from an unaffiliated third party at an annual rental of \$53,000 pursuant to a month to month sub-lease agreement.

The Company's Auburn, Washington depot facility is a 3,000 square foot facility located in a multi-tenant building leased from an unaffiliated third party at an annual rental of \$27,000 pursuant to a month to month rental agreement.

The Company's Baton Rouge, Louisiana depot facility is a 1,800 square foot facility located in a multi-tenant building leased from an unaffiliated third party at an annual rental of \$15,000 pursuant to an arrangement expiring in March 2015.

The Company's Charlotte, North Carolina depot facility is an 8,500 square foot facility located in a multi-tenant building leased from an unaffiliated third party at an annual rental of \$64,000 pursuant to an agreement expiring in March 2016.

The Company's Escondido, California depot facility is a 6,000 square foot facility leased from an unaffiliated third party at an annual rental of \$42,000 pursuant to a month to month rental agreement.

The Company's Stony Point, New York depot facility is an 18,000 square foot facility located in a multi-tenant building leased from an unaffiliated third party at an annual rental of \$116,000 pursuant to an agreement expiring in June 2016.

The Company's Tulsa, Oklahoma energy and carbon services facility is located in a 2,304 square foot office facility located in a multi-tenant building leased from an unaffiliated third party at an annual rental of \$26,000 which includes our share of operating expenses. This lease expires December 2017.





The Company's Hampstead, New Hampshire telemarketing facility is located in a 1,600 square foot office facility located in a multi-tenant building leased from an unaffiliated third party at an annual rental of \$28,000 pursuant to an agreement expiring in August 2017.

The Company's Pottsboro, Texas telemarketing facility is located in a 1,000 square foot office facility located in a multi-tenant building leased from an unaffiliated third party at an annual rental of \$9,600 pursuant to an agreement expiring in August 2017.

In addition to the above leases, the Company from time to time utilizes public warehouse space on a month to month basis. The Company typically enters into short-term leases for its facilities and whenever possible extends the expiration date of such leases. The Company believes that its insurance policies are adequate to protect the Company's property.

### Item 3. Legal Proceedings

On April 1, 1999, the Company reported a release of approximately 7,800 lbs. of R-11 refrigerant (the "1999 Release"), at its former leased facility in Hillburn, NY (the "Hillburn Facility"), which the Company vacated in June 2006. Between April 1999 and May 1999, with the approval of the New York State Department of Environmental Conservation ("DEC"), the Company constructed and put into operation a remediation system to remove R-11 refrigerant levels in the groundwater under and around the Hillburn Facility.

In September 2000, the Company signed an Order on Consent with the DEC, which was amended in May 2001, whereby the Company agreed to operate the remediation system and perform monthly testing at the Hillburn Facility until remaining groundwater contamination has been effectively abated. In July 2005, the DEC approved a modification of the Order on Consent to reduce the frequency of testing from monthly to quarterly. Additionally, in March 2013, the DEC approved a further modification of the Order on Consent to modify the operation of the remediation system and to further reduce the frequency and scope of testing. The Company is continuing to operate the remediation system pursuant to the approved modifications to that Order on Consent. Based upon the most recent modifications to the Order on Consent, as of December 31, 2013, the Company accrued, as an expense in its consolidated financial statements, the costs that the Company believes it will incur in connection with its compliance with the Order of Consent through December 31, 2018. There can be no assurance that additional testing will not be required or that the Company will not incur additional costs and such costs in excess of the Company's estimate may have a material adverse effect on the Company financial condition or results of operations.

In May 2000, the Hillburn Facility, as a result of the 1999 Release, was nominated by the EPA for listing on the National Priorities List ("NPL") pursuant to CERCLA. The Company submitted opposition to the listing within the

sixty-day comment period. In September 2003, the EPA advised the Company that it had no current plans to finalize the process for listing of the Hillburn Facility on the NPL and that the EPA will not withdraw the proposal for listing on the NPL.

The Company has exhausted all insurance proceeds available for the 1999 Release under all applicable policies.

During the years ended December 31, 2014 and 2013, the Company incurred \$53,000 and \$100,000, respectively, in additional remediation costs in connection with the matters above. There can be no assurance that the ultimate outcome of the 1999 Release will not have a material adverse effect on the Company's financial condition and results of operations. There can be no assurance that the EPA will not change its current plans and seek to finalize the process of listing the Hillburn Facility on the NPL, or that the ultimate outcome of such a listing will not have a material adverse effect on the Company's financial condition and results of operations.

Item 4. Mine Safety Disclosures

Not Applicable

Part IIItem 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock trades on the NASDAQ Capital Market under the symbol "HDSN". The following table sets forth, for the periods indicated, the range of the high and low sale prices for the Common stock as reported by NASDAQ.

	High	Low
2013		
- First Quarter	\$5.04	\$3.59
- Second Quarter	\$4.45	\$3.11
- Third Quarter	\$3.26	\$1.76
- Fourth Quarter	\$3.72	\$1.75
2014		
- First Quarter	\$4.00	\$2.68
- Second Quarter	\$3.40	\$2.55
- Third Quarter	\$3.59	\$2.60
- Fourth Quarter	\$4.80	\$2.86

The number of record holders of the Company's common stock was approximately 152 as of March 16, 2015. The Company believes that there are in excess of 3,200 beneficial owners of its common stock.

To date, the Company has not declared or paid any cash dividends on its common stock. The payment of dividends, if any, in the future is within the discretion of the Board of Directors and will depend upon the Company's earnings, its capital requirements and financial condition, borrowing covenants, and other relevant factors. The Company presently intends to retain all earnings, if any, to finance the Company's operations and development of its business and does not expect to declare or pay any cash dividends on its common stock in the foreseeable future. In addition, the Company has a credit facility with PNC Bank National Association ("PNC") that, among other things, restricts the Company's ability to declare or pay any cash dividends on its capital stock.

See Item 12 for certain information with respect to the Company's equity compensation plans as of December 31, 2014.

Item 6. Selected Financial Data

Not Applicable

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements, contained in this section and elsewhere in this Form 10-K, 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 this report and in the Company's other subsequent filings with the Securities and Exchange Commission (“SEC”). The words “believe”, “expect”, “anticipate”, “may”, “plan”, “should” 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 HCFC, HFC and CFC refrigerants from suppliers and its customers. Effective January 1, 1996, the Clean Air Act (the "Act") prohibited the production of virgin CFC refrigerants and limited the production of virgin HCFC refrigerants. Effective January 1, 1996, the Act limited the production of virgin HCFC refrigerants, which production was further limited in January 2004. Federal regulations enacted in January 2004 established production and consumption allowances for HCFCs and imposed limitations on the importation of certain virgin HCFC refrigerants. Under the Act, production of certain virgin HCFC refrigerants is scheduled to be phased out during the period 2010 through 2020, and production of all virgin HCFC refrigerants is scheduled to be phased out by 2030. As a result of litigation, the federal regulations implementing the January 2010 phase down schedule were vacated, and in April 2013 the EPA published a final rule providing for the production or importation of 63 million and 51 million pounds of HCFC-22 in 2013 and 2014, respectively. The Company believes that the production permitted by the final rule created an oversupply of HCFC-22 during the 2013 cooling season. The Company believes that this oversupply resulted in a reduction in the market price of HCFC-22 during 2013, which resulted in the Company having to record a lower of cost or market adjustment in the amount of \$14,700,000 for the three and nine months ended September 30, 2013 (the "LCM"). On October 16, 2014, the Administrator of the EPA signed the Final Rule providing further reductions in the production and consumption

allowances for virgin HCFC refrigerants for the years 2015 through 2019. In the Final Rule, the EPA has established a linear annual phase down schedule for the production or importation of virgin HCFC-22 that will start at approximately 22 million pounds in 2015 and reduce by approximately 4.5 million pounds each year and end at zero in 2020.

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

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

## Results of Operations

### Year ended December 31, 2014 as compared to the year ended December 31, 2013

Revenues for the year ended December 31, 2014 were \$55,810,000, a decrease of \$2,824,000 or 5% from the \$58,634,000 reported during the comparable 2013 period. The decrease in revenues was attributable to a decrease in refrigerant revenues of \$3,833,000 offset in part by an increase in RefrigerantSide® Services revenues of \$1,009,000. The decrease in refrigerant revenue is related to a decrease in the selling price per pound of certain refrigerants sold, which accounted for a decrease in revenues of \$24,157,000, offset in part by an increase in the number of pounds of certain refrigerants sold, which accounted for an increase in revenues of \$20,324,000. The increase in RefrigerantSide® Services was primarily attributable to an increase in the price of jobs completed when compared to the same period in 2013.

Cost of sales for the year ended December 31, 2014 was \$49,364,000 or 88% of sales. Cost of sales for year ended December 31, 2013 was \$59,364,000, including the LCM adjustment to the HCFC-22 inventory of \$14,700,000. The LCM inventory adjustment, which significantly increased our cost of sales, was due to an approximately 50% decline in HCFC-22 refrigerant pricing from April to September 2013 following the issuance of the EPA's final rule in April 2013. Cost of sales for the year ended December 31, 2013, before the LCM adjustment was \$44,664,000 or 76% of sales. The increase in the cost of sales percentage, before the LCM adjustment, from 76% in 2013 to 88% in 2014, is related to the increase in the number of pounds of refrigerant sold in 2014 at a lower selling price per pound, as described in the revenue discussion above.

Operating expenses for the year ended December 31, 2014 were \$7,431,000, a decrease of \$324,000 from the \$7,755,000 reported during the comparable 2013 period. The decrease in operating expenses is due to a decrease in selling expenses primarily due to decreases in commissions, recruiting, advertising and other selling expenses.

Other income (expense) for the year ended December 31, 2014 was (\$641,000), compared to the (\$933,000) reported during the comparable 2013 period. Other income (expense) consists of interest expense of \$641,000 and \$933,000 for the comparable 2014 and 2013 periods, respectively. The decrease in interest expense is due to decreased borrowing on the PNC credit facility.

Income tax benefit for the year ended December 31, 2014 was \$906,000 compared to the \$3,576,000 reported during the comparable 2013 period. For 2014 the income tax benefit of \$906,000 was for federal and state income tax at statutory rates applied to the pre-tax loss, as well as state income tax refunds for 2013 that had not been accrued in 2013. For 2013 the income tax benefit of \$3,576,000 was for federal and state income tax at statutory rates applied to the pre-tax loss.

Net loss for the year ended December 31, 2014 was \$720,000, a decrease of \$5,122,000 compared to the \$5,842,000 reported during the comparable 2013 period, primarily due to the increase in gross profit and decreases in operating expenses and interest expense, partially offset by the decrease in the income tax benefit.

#### Liquidity and Capital Resources

At December 31, 2014, the Company had working capital, which represents current assets less current liabilities of \$32,114,000, an increase of \$9,859,000 from the working capital of \$22,255,000 at December 31, 2013. The increase in working capital is primarily attributable to approximately \$16,000,000 of proceeds from the issuance of common stock, offset by increases in fixed assets and other long-term assets of \$6,100,000.



Inventory and trade receivables are principal components of current assets. At December 31, 2014, the Company had inventories of \$37,017,000, an increase of \$3,050,000 from \$33,967,000 at December 31, 2013. The increase in the inventory balance is primarily due to the inventory acquired in connection with the Polar Technologies acquisition, as well as the timing and availability of inventory purchases and the sale of refrigerants. The Company's ability to sell and replace its inventory on a timely basis and the prices at which it can be sold are subject, among other things, to current market conditions and the nature of supplier or customer arrangements and the Company's ability to source CFC based refrigerants (which are no longer being produced), HCFC refrigerants (which are currently being phased down leading to a full phase out of virgin production), or non-CFC based refrigerants. At December 31, 2014, the Company had trade receivables, net of allowance for doubtful accounts, of \$3,968,000, an increase of \$262,000 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 by operating activities for the year ended December 31, 2014, was \$1,701,000 compared with net cash used by operating activities of \$6,417,000 for the comparable 2013 period. Net cash provided by operating activities for the 2014 period was primarily attributable to a decrease in income taxes receivable, offset in part by an increase in inventory.

Net cash used by investing activities for the year ended December 31, 2014, was \$8,031,000 compared with net cash used by investing activities of \$397,000 for the comparable 2013 period. The net cash used by investing activities for the 2014 period was primarily related to the acquisition of Polar Technologies, as well as investment in general purpose equipment for the Company's Champaign, Illinois facility.

Net cash provided by financing activities for the year ended December 31, 2014, was \$6,596,000 compared with net cash provided by financing activities of \$3,492,000 for the comparable 2013 period. The net cash provided by financing activities for the 2014 period was primarily due to the proceeds from the issuance of common stock, partially offset by the repayment of short term debt and long term debt.

At December 31, 2014, the Company had cash and cash equivalents of \$935,000. The Company continues to assess its capital expenditure needs. The Company may, to the extent necessary, continue to utilize its cash balances to purchase equipment primarily for its operations. The Company estimates that the total capital expenditures for 2015 will be approximately \$1,000,000.

The following is a summary of the Company's significant contractual cash obligations for the periods indicated that existed as of December 31, 2014 (in 000's):

	Twelve Month Period Ended December 31,				
	2015	2016	2017	2018	Total
Long and short term debt and capital lease obligations:					
Principal	\$6,320	\$277	\$112	\$4,000	\$10,709
Estimated interest (1)	650	638	630	314	2,232
Operating leases	1,120	690	587	163	2,560
Total contractual cash obligations	\$8,090	\$1,605	\$1,329	\$4,477	\$15,501

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

On June 22, 2012, a subsidiary of Hudson entered into a Revolving Credit, Term Loan and Security Agreement (the "PNC Facility") with PNC Bank, National Association, as agent ("Agent" or "PNC"), and such other lenders as may thereafter become a party to the PNC Facility. Under the terms of the PNC Facility, as amended by the First Amendment to the PNC Facility, dated February 15, 2013, Hudson may borrow up to a maximum of \$40,000,000 consisting of a term loan in the principal amount of \$4,000,000 and revolving loans in a maximum amount up to \$36,000,000. Amounts borrowed under the PNC Facility may be used by Hudson for working capital needs and to reimburse drawings under letters of credit. Fees and expenses relating to the creation of the PNC Facility of approximately \$112,000 are being amortized over the life of the loan. At December 31, 2014, total borrowings under the PNC Facility were \$10,056,000, and there was \$15,000,000 available to borrow under the revolving line of credit. The effective interest rate under the PNC Facility was 4.25% at December 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 (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 (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 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, 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, and suspended the minimum fixed charge ratio covenant until the quarterly period ending March 31, 2015.

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

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

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

On July 2, 2014, we entered into the Third Amendment to the PNC Facility (the “Third PNC Amendment”) which, among other things, extended the term of PNC Facility. Pursuant to the Third PNC Amendment, which was effective June 30, 2014, the Termination Date of the PNC Facility (as defined in the PNC Facility) has been extended to June 30, 2018. The Third PNC Amendment also amended the Minimum EBITDA covenant in the PNC Facility to require that the Company maintain, on a trailing 12 month basis, tested quarterly, minimum EBITDA for the quarters ending June 30, 2014 through December 31, 2014, as follows:

Period	Amount
Six month period ending June 30, 2014	\$1,123,000
Nine month period ending September 30, 2014	\$1,330,000
Twelve month period ending December 31, 2014	\$802,000

EBITDA, as defined by the PNC agreement, for the year ended December 31, 2014 was \$1,116,000, which was in compliance with the EBITDA covenant, as amended by the Third PNC Amendment, for the period. The EBITDA was calculated as follows:

For the year ended  
December 31, 2014

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

Net (loss)	\$ (720,000	)
less: income tax benefit	(906,000	)
Loss before income taxes	(1,626,000	)
add: interest expense	641,000	
add: depreciation and amortization	979,000	
add: value of share-based payment arrangements	708,000	
Add: other non-cash expense	414,000	
Earnings before interest, taxes, depreciation, and amortization	\$ 1,116,000	

EBITDA, as defined by the PNC agreement, 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 disclosure requirements 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, under the PNC Facility as of December 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, depending on our future operating performance and general economic conditions, we cannot make any assurance that we will continue to be in compliance.

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

On June 6, 2014 the Company entered into an Underwriting Agreement with an investment banking firm for itself and as representative for two other investment banking firms (collectively, the "Underwriters"), in connection with an underwritten offering (the "Offering") of 6,000,000 shares of the Company's common stock, par value \$0.01 per share (the "Firm Shares"). Pursuant to the Underwriting Agreement, the Company agreed to sell to the Underwriters, and the Underwriters agreed to purchase from the Company, an aggregate of 6,000,000 shares of common stock at a price of \$2.3375 per share, and the price to the public was \$2.50 per share. Pursuant to the Underwriting Agreement, the Company also granted the Underwriters a 30 day option to purchase up to 900,000 additional shares of its common stock to cover over-allotments, if any. The Company also agreed to reimburse certain expenses incurred by the Underwriters in the Offering.

The closing of the Offering was held on June 11, 2014, at which time the Company sold 6,900,000 shares of its common stock to the Underwriters (including 900,000 shares to cover over-allotments) at a price of \$2.3375 per share, and received gross proceeds of \$16,128,750. The Underwriters received reimbursement of expenses of \$150,000, and the Company also incurred approximately \$400,000 of additional expenses in connection with the Offering.

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. In addition, the proceeds from the Offering may be used for working capital and general corporate purposes which may include, among other things, funding additional acquisitions, although we have no present commitments or agreements with respect to any such transactions. 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 on acceptable terms, or at all.

#### Inflation

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

#### Reliance on Suppliers and Customers

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

For the year ended December 31, 2014, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 25% of the Company's revenues. At December 31, 2014, there were \$688,000 in outstanding receivables from these customers.

For the year ended December 31, 2013, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 23% of the Company's revenues. At December 31, 2013, there were \$344,000 in outstanding receivables from these customers.

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

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

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

## **Recent Accounting Pronouncements**

In April 2014, the FASB issued ASU 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” ASU 2014-08 changes the requirements for reporting discontinued operations so that only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity’s operations and financial results will be reported as discontinued operations in the financial statements when the component of an entity or group of components of an entity meets the criteria to be classified as held for sale, is disposed of by sale, or is disposed of other than by sale (for example, by abandonment or in a distribution to owners in a spinoff). Examples of a strategic shift that has (or will have) a major effect on an entity’s operations and financial results could include a disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity. A business or nonprofit activity that, on acquisition, meets the criteria to be classified as held for sale also is a discontinued operation. The amendments in ASU 2014-08 require an entity to present, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation separately in the asset and liability sections, respectively, of the statement of financial position and also require additional disclosures about discontinued operations. Public business entities should apply the amendments in ASU 2014-08 prospectively to both disposals (or classifications as held for sale) of components of an entity and businesses that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The adoption of ASU 2014-08 will not have a material impact on our results of operations or our financial position.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. For a public entity, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. An entity should apply the amendments in ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. We are currently evaluating the effects of ASU 2014-09 and therefore cannot estimate the effects, if any, on historical or future revenue recognition at this time.

## **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**



## **Interest Rate Sensitivity**

We are exposed to market risk from fluctuations in interest rates on the PNC Facility. The PNC Facility is a \$40,000,000 secured facility. Interest on loans under the PNC Facility is payable in arrears on the first day of each month with respect to loans bearing interest at the domestic rate (as set forth in the PNC Facility) and at the end of each interest period with respect to loans bearing interest at the Eurodollar rate (as set forth in the PNC Facility) or, for Eurodollar rate loans with an interest period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar rate loan or (b) the end of the interest period. As of December 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 December 31, 2014 was \$10,056,000. Future interest rate changes on our borrowing under the PNC Facility may have an impact on our consolidated results of operations.

## **Refrigerant Market**

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

Item 8. Financial Statements and Supplementary Data

The financial statements appear in a separate section of this report following Part IV.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

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

**Changes in Internal Control over Financial Reporting**

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended December 31, 2014 that materially affected, or are reasonably likely to

materially affect, the Company's internal control over financial reporting.

### **Management's Report on Internal Control over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements and the reliability of financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's Chief Executive Officer and Chief Financial Officer have assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, the Company's Chief Executive Officer and Chief Financial Officer have used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control – Integrated Framework*. Based on our assessment, we believe that, as of December 31, 2014, the Company's internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report on Form 10-K.

### **Item 9B. Other Information**

None

Part III**Item 10. Directors, Executive Officers and Corporate Governance**

The information presented below provides information each director and executive officer has given us about his age, all positions he holds, his principal occupation and his business experience for at least the past five years. In addition to the information presented below regarding each director's specific experience, qualifications, attributes and skills that led our Board to the conclusion that he should serve as a director, we also believe that all of our directors have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment to service to the Company and our Board.

The following table sets forth information with respect to the directors and executive officers of the Company:

Name	Age	Position
Kevin J. Zugibe	51	Chairman of the Board and Chief Executive Officer
Brian F. Coleman	53	President and Chief Operating Officer, Director
James R. Buscemi	61	Chief Financial Officer
Charles F. Harkins, Jr.	53	Vice President Sales
Stephen P. Mandracchia	55	Vice President Legal and Regulatory and Secretary
Vincent P. Abbatecola	68	Director
Dominic J. Monetta	73	Director
Otto C. Morch	81	Director
Richard Parrillo	61	Director
Eric A. Prouty	44	Director

*Kevin J. Zugibe, P.E.*, a founder of the Company, has been Chairman of the Board and Chief Executive Officer of the Company since its inception in 1991. From May 1987 to May 1994, Mr. Zugibe was employed as a power engineer with Orange and Rockland Utilities, Inc., a major public utility, where he was responsible for all HVAC applications. Mr. Zugibe is a licensed professional engineer, and from December 1990 to May 1994, he was a member of Kevin J. Zugibe & Associates, a professional engineering firm. We believe Mr. Zugibe's qualifications to sit on our Board of Directors include his 27 years of experience in the air conditioning and refrigeration industry including as our founder, our Chairman and Chief Executive Officer for 24 years. Mr. Zugibe is the brother-in-law of Stephen P. Mandracchia.

*Brian F. Coleman* has been a Director of the Company since December 2007, and President and Chief Operating Officer of the Company since August 21, 2001 and served as Chief Financial Officer of the Company from May 1997 until December 2002. From June 1987 to May 1997, Mr. Coleman was employed by, and since July 1995, was a partner with BDO USA, LLP, the Company's independent registered public accounting firm. We believe Mr.

Coleman's qualifications to sit on our Board of Directors include his prior financial and accounting experience obtained as a partner with BDO USA, LLP, and his 17 years of experience in the air conditioning and refrigeration industry including as our President and Chief Operating Officer.

*James R. Buscemi* has been Chief Financial Officer of the Company since December 2002 and served as Corporate Controller from June 1998 until December 2002. Prior to joining the Company, Mr. Buscemi held various financial positions within Avnet, Inc, including Chief Financial Officer of Avnet's electric motors and component part subsidiary, Brownell Electro, Inc.

*Charles F. Harkins, Jr.* has been Vice President of Sales of the Company since December 2003. Mr. Harkins has served in a variety of capacities since joining the Company in 1992. Prior to joining the Company, Mr. Harkins served in the U.S. Army for 13 years attaining the rank of Staff Sergeant; he is a graduate of the U.S. Army Engineering School and the U.S. Army Chemical School.

*Stephen P. Mandracchia*, a founder of the Company, has been Vice President Legal and Regulatory of the Company since August 2003 and has been Secretary of the Company since April 1995. Mr. Mandracchia has served in a variety of capacities with the Company since 1993. Mr. Mandracchia was a member of the law firm of Martin, Vandewalle, Donohue, Mandracchia & McGahan, Great Neck, New York until December 31, 1995 (having been affiliated with such firm since August 1983). Mr. Mandracchia is the brother in-law of Mr. Zugibe.

*Vincent P. Abbatecola* has been a Director of the Company since June 1994. Mr. Abbatecola is Vice President of Abbey Ice & Spring Water Company, Spring Valley, New York, where he has been employed since May 1971. He was formerly the Chairman of the International Packaged Ice Association and a trustee of Nyack Hospital. Mr. Abbatecola serves on the Rockland Board of Governors, the United Hospice of Rockland Board and the St. Thomas Aquinas College President's Council. We believe that Mr. Abbatecola's qualifications to sit on our Board include his business experience obtained as Vice President of Abbey Ice and Spring Water Company, his 20 years of experience in the air conditioning and refrigeration industry by virtue of his service on our Board including as Chairman of the Company's Audit Committee for 20 years.

*Dominic J. Monetta, DPA* has been a Director of the Company since April 1996. Dr. Monetta has since August 1993, been the President of Resource Alternatives, Inc., a corporate development firm concentrating on resolving technically oriented managerial issues facing chief executive officers and their senior executives. From December 1991 to May 1993, Dr. Monetta served as the Director of Defense Research and Engineering for Research and Advanced Technology, United States Department of Defense. From June 1989 to December 1991, Dr. Monetta served as the Director of the Office of New Production Reactors, United States Department of Energy. Dr. Monetta's qualifications to sit on our board include his chemical engineering and other management experience obtained as a senior executive for the US Departments of Energy and Defense. Dr. Monetta has 18 years of experience in the air conditioning and refrigeration industry by virtue of his service on our Board and includes his membership on the Company's Audit Committee for the last 7 years and Occupational, Safety and Environmental Protection Committee for the last 13 years.

*Otto C. Morch* has been a Director of the Company since March 1996. Mr. Morch was a Senior Vice President of Commercial Banking at Provident Savings Bank, F.A. for more than five years until his retirement in December 1997. We believe that Mr. Morch's qualifications to sit on our Board include his financial and other experience obtained as a Senior Vice President at Provident Savings Bank, F.A., his 19 years of experience in the air conditioning and refrigeration industry by virtue of his service on our Board including his membership on the Company's Audit Committee for 19 years.

*Richard Parrillo* has been a director of the Company since September 2014. He has, since 2007, been the Managing Member and principal of Tank Wash USA, LLC, an industrial tank cleaning and inspection company, serving the petro-chemical, refrigeration and related services industries. Between 2000 and 2007, Mr. Parrillo was the Managing Member of Brite Clean, LLC. Between 1999 and 2007, Mr. Parrillo was the Managing Member of Matlack Leasing Corporation, and he served as Vice President of Matlack Leasing Corporation, a subsidiary of Matlack Systems, Inc. and predecessor of Matlack Leasing LLC, from 1995 to 1999. From 1990 to 1995, Mr. Parrillo served as North American Sales Manager for Eurotainer USA, Inc. Mr. Parrillo also served as Sales/Operations Manager for SSM Coal North America, Inc, from 1984 to 1990, and worked at Rentco Division of Fruehauf Corp, from 1979 to 1984, serving as District Manager from 1979 to 1983 and as Eastern Regional Manager from 1982 to 1984. Between 1976 and 1979 Mr. Parrillo served as a Branch Manager for Transamerica Transportation Services. We believe that Mr. Parrillo's qualifications to sit on the board include his more than 25 years of business experience in the petrochemical and related service industries, both domestically and internationally, as well as his experience in the areas of mergers, acquisitions, management and sales, having negotiated, acquired and managed 13 related companies over the past 25 years.

*Eric A. Prouty* has been a director of the Company since September 2014. He has, since January 2012, been an independent consultant providing business development consulting services and has provided such services to Hudson at various times since May 2012. Mr. Prouty has more than 20 years experience as an equity research analyst in the asset management and investment banking industry and was one of the first analysts on Wall Street to focus exclusively on companies in the clean tech/sustainability market. From March 2006 through November 2011, Mr. Prouty served as an equity research analyst for Canaccord Genuity, formerly known as Canaccord Adams, a global investment banking firm. Between February 2001 and March 2006 Mr. Prouty served as an equity research analyst for Adams Harkness. While at Adams Harkness (predecessor to Canaccord Genuity) Mr. Prouty served on the firm's

Board of Directors from 2004 until the sale of the company to Canaccord in early 2006. Mr. Prouty also served as Director of Research from 2004 until 2007 managing a 40 person research department. Between March 2000 and February 2001, Mr. Prouty served as an equity research analyst for the investment banking firm of Robertson Stephens. From November 1996 through March 2000, Mr. Prouty served as an equity research analyst for the investment banking firm of First Albany. Between June 1992 and November 1996, Mr. Prouty served as an equity research associate at State Street Research and Management. We believe that Mr. Prouty's qualifications to sit on the board include his more than 20 years of experience as an equity research analyst in the investment banking field.

Hudson has established a Compensation Committee of the Board of Directors, which is responsible for, among other things, assisting the Board in overseeing Hudson's executive compensation strategy and reviewing and approving the compensation of our executive officers and for the administration of Hudson's employee benefit plans. The Compensation Committee is also responsible for reviewing and approving the compensation of the Company's directors. The executive officers do not determine executive or director compensation but provide information and recommendations to the Compensation Committee upon its request. 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. The members of the Committee are Messrs. Abbatecola, Monetta, Morch and Parrillo, each of whom (i) is an "independent" director as defined under the rules of NASDAQ and (ii) qualifies as "outside" directors within the meaning of Internal Revenue Code Section 162(m) and as "non-employee" directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended.

Hudson has an Audit Committee of the Board of Directors, which supervises the audit and financial procedures of Hudson and is responsible for selection of the Company's independent registered public accountants. The members of the Audit Committee are Messrs. Abbatecola, Monetta, Morch and Parrillo, each of whom is an "independent" director as defined under the rules of NASDAQ. The Audit Committee does not have a member that qualifies as a "financial expert" under the federal securities laws. Each of the members of the Audit Committee has been active in the business community and has broad and diverse backgrounds, and financial experience. Two of the current members have served on Hudson's Audit Committee and have overseen the financial review by Hudson's independent auditors for 12 years. Hudson believes that the current members of the Audit Committee are able to fully and faithfully perform the functions of the Audit Committee and that Hudson does not need to install a "financial expert" on the Audit Committee.

The By-laws of Hudson provide that the Board of Directors is divided into two classes. Each class is to have a term of two years, with the term of each class expiring in successive years, and is to consist, as nearly as possible, of one-half of the number of directors constituting the entire Board. The By-laws provide for the number of directors to be fixed by the Board of Directors but in any event, shall be no less than five (5) (subject to decrease by a resolution adopted by the shareholders). In July 2014 the Board of Directors approved an increase in the total number of directors from five to seven. At Hudson's September 17, 2014 Annual Meeting of the Shareholders, Messrs. Monetta, Parrillo, Prouty and Zugibe were elected as directors to terms of office that will expire at the Annual Meeting of Shareholders to be held in the year 2016. Messrs. Abbatecola, Coleman and Morch are currently serving as directors and their terms of office expire at the Annual Meeting of Shareholders to be held in the year 2015.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our officers and directors, and persons who own more than 10 percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors, and greater than 10 percent shareholders are required by SEC regulation to furnish Hudson with copies of all Section 16(a) forms they file.

Based solely on Hudson's review of copies of such forms received by Hudson, and on representations made to us, we believe that during the year ended December 31, 2014, all filing requirements applicable to all officers, directors and greater than 10% beneficial shareholders were timely complied with.

#### Code of Conduct and Ethics

We have adopted a written code of conduct and ethics that applies to all directors, and employees, including Hudson's principal executive officer, principal financial officer, principal accounting officer or controller and any persons performing similar functions. We will provide a copy of its code of ethics to any person without charge upon written



request addressed to Hudson Technologies, Inc., One Blue Hill Plaza, PO Box 1541, Pearl River, New York 10965, Attention: Stephen P. Mandracchia.

### **Item 11. Executive Compensation**

The following table discloses, for the years indicated, the compensation for our Chief Executive Officer and for our two most highly compensated executive officers, other than the Chief Executive Officer, who were serving as executive officers at the end of the year ended December 31, 2014 and whose total compensation during the year ended December 31, 2014 exceeded \$100,000 (the “Named Executives”).

#### SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$) (1)	Non-Equity Incentive Plan Compensation (\$)	Non-qualified Deferred Compensation Earnings	All Other Compensation (\$) (3)	Total (\$)
Kevin J. Zugibe, Chairman, Chief Executive Officer (2)	2014	\$288,500	\$ 0	\$ 0	\$189,556	\$ 0	\$ 0	\$ 0	\$478,056
	2013	\$288,500	\$ 0	\$ 0	\$0	\$ 0	\$ 0	\$ 0	\$288,500
Brian F. Coleman, President, Chief Operating Officer, Director (2)	2014	\$212,500	\$ 0	\$ 0	\$136,000	\$ 0	\$ 0	\$ 9,623	\$358,123
	2013	\$212,500	\$ 0	\$ 0	\$0	\$ 0	\$ 0	\$ 9,623	\$222,123
Charles F. Harkins, Jr., Vice President Sales	2014	\$191,000	\$ 0	\$ 0	\$108,800	\$ 0	\$ 0	\$ 8,371	\$308,171
	2013	\$191,000	\$ 0	\$ 0	\$0	\$ 0	\$ 0	\$ 8,371	\$199,371

- (1) We utilize the grant date fair value using the Black-Scholes method as described in Note 9 to the Notes to the Consolidated Financial Statements.
- (2) Messrs. Coleman and Zugibe did not receive any compensation for services as a director during the years ended December 31, 2014 and 2013.
- (3) Represents payments of annual premiums for long term care insurance purchased for the benefit of the executive officers and, where applicable, the executive officer's spouse.

## **Narrative Disclosure to Summary Compensation Table**

### *Employment, Termination, Change of Control and other Agreements*

*Kevin J. Zugibe.* On October 10, 2006, we entered into an Amended and Restated Employment Agreement with Kevin J. Zugibe, which currently expires in October 2016 and is automatically renewable for successive two year terms unless either party gives notice of termination at least ninety days prior to the expiration date of the then current term. Pursuant to the agreement, as amended by the First Amendment to Restated Employment Agreement dated December 29, 2008, Mr. Zugibe is receiving an annual base salary of \$288,500 with such increases and bonuses as our Board of Directors may determine. The agreement provides, in the event of Mr. Zugibe's disability, for the continuation of at least 75% of Mr. Zugibe's salary for up to one hundred twenty days after the commencement of his disability. Mr. Zugibe is also entitled to take up to four weeks of vacation, excluding paid holidays.

As part of the agreement, Mr. Zugibe has agreed to certain covenants and restrictions, which include an agreement that Mr. Zugibe will not compete with us in specified geographic areas for a period of twenty-four months after his termination for any reason. The agreement also provides that, in the event of his involuntary separation from Hudson without cause, or in the event of his voluntary separation for a good reason as enumerated in the agreement, Mr. Zugibe will receive severance payments, in the form of the continuation of his annual base salary and benefits for a period of twenty-four months, and a lump sum payment equivalent to the highest bonus paid to Mr. Zugibe in the three years prior to his termination, pro-rated to the date of his termination. We are the beneficiary of a "key-man" insurance policy on the life of Mr. Zugibe in the amount of \$1,000,000.

*Brian F. Coleman.* On October 10, 2006, we entered into an agreement with Brian F. Coleman, pursuant to which, as amended, Mr. Coleman has agreed to certain covenants and restrictions, which include an agreement that Mr. Coleman will not compete with us in specified geographic areas for a period of eighteen months after his termination for any reason. The agreement provides, in the event of his disability, for the continuation of at least 75% of his salary for up to one hundred twenty days after the commencement of his disability. The agreement also provides that, in the event of his involuntary separation without cause, or in the event of his voluntary separation for a good reason as

enumerated in the agreement, Mr. Coleman will receive severance payments, in the form of the continuation of his annual base salary and benefits for a period of eighteen months, and a lump sum payment equivalent to the highest bonus paid to him in the three years prior to his termination, pro-rated to the date of his termination.

*Charles F. Harkins.* On October 10, 2006, we entered into an agreement with Charles F. Harkins, pursuant to which, as amended, Mr. Harkins has agreed to certain covenants and restrictions, which include an agreement that Mr. Harkins will not compete with us in specified geographic areas for a period of eighteen months after his termination for any reason. The agreement provides, in the event of his disability, for the continuation of at least 75% of his salary for up to one hundred twenty days after the commencement of his disability. The agreement also provides that

/s/ Robin G. McGillivray

Director

September 6, 2011

Robin G. McGillivray

/s/ Barry Lawson Williams

Director

September 6, 2011

Barry Lawson Williams

II-6

---

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
3.1	The Company's Certificate of Incorporation, as amended, is incorporated by reference to Exhibit 3.1 of its Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
3.2	The Company's Bylaws, as amended, through December 13, 2010, are incorporated by reference to Exhibit 3.2 of its Current Report on Form 8-K dated December 16, 2010.
4.1	The Company's 2011 Stock Incentive Plan is incorporated by reference to Exhibit A of the Company's Schedule 14A Proxy Statement dated March 10, 2011.
10.1	The Company's 1994 Stock Option Plan, as amended through February 13, 2008, is incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.
10.2	The Company's 1995 Independent Director Stock Option Plan, as amended through November 18, 2004, is incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
24.1	Power of Attorney (see signature page of this Registration Statement).

---