

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

UNITED STATES

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number 1-13412

Hudson Technologies, Inc.

(Exact name of registrant as specified in its charter)

New York

13-3641539

(State or other jurisdiction of
incorporation or organization)

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

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

10965

Pearl River, New York

(Zip Code)

(Address of principal executive offices)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No**

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

Yes **No**

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

<u>Common stock, \$0.01 par value</u>	<u>32,031,426 shares</u>
Class	Outstanding at October 29, 2014

Hudson Technologies, Inc.

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Part I – FINANCIAL INFORMATION

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

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

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,173	\$ 669
Trade accounts receivable - net	9,036	3,706
Income taxes receivable	0	2,709
Inventories	27,653	33,967
Deferred tax asset	207	207
Prepaid expenses and other current assets	4,838	608
Total current assets	42,907	41,866
Property, plant and equipment, less accumulated depreciation	4,462	4,536
Other assets	150	106
Deferred tax asset	5,171	5,363
Investments in affiliates	377	440
Intangible assets, less accumulated amortization	48	57
Total Assets	\$ 53,115	\$ 52,368
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,834	\$ 3,955
Accrued payroll	437	289
Short-term debt and current maturities of long-term debt	272	15,367
Total current liabilities	8,543	19,611
Long-term debt, less current maturities	458	4,671
Total Liabilities	9,001	24,282
Commitments and contingencies		

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Stockholders' equity:

Preferred stock, shares authorized 5,000,000:

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

0 0

Common stock, \$0.01 par value; shares authorized 50,000,000; issued and outstanding 32,031,426 and 25,070,386

320 251

Additional paid-in capital

60,543 44,944

Accumulated deficit

(16,749) (17,109)

Total Stockholders' Equity

44,114 28,086

Total Liabilities and Stockholders' Equity

\$ 53,115 \$ 52,368

See Accompanying Notes to the Consolidated Financial Statements.

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

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

	Three month period		Nine month period	
	ended September 30, 2014	2013	ended September 30, 2014	2013
Revenues	\$ 15,296	\$ 15,171	\$ 47,755	\$ 53,816
Cost of sales, excluding lower of cost or market adjustment	13,801	13,084	42,255	40,019
Lower of cost or market adjustment	0	14,700	0	14,700
Gross profit (loss)	1,495	(12,613)	5,500	(903)
Operating expenses:				
Selling and marketing	630	756	1,894	2,397
General and administrative	992	1,077	2,609	2,967
Total operating expenses	1,622	1,833	4,503	5,364
Operating income (loss)	(127)	(14,446)	997	(6,267)
Other income (expense):				
Interest expense	(99)	(247)	(494)	(687)
Total other income (expense)	(99)	(247)	(494)	(687)
Income (loss) before income taxes	(226)	(14,693)	503	(6,954)
Income tax (benefit) expense	(118)	(5,578)	143	(2,642)
Net income (loss)	\$(108)	\$(9,115)	\$360	\$(4,312)
Net income (loss) per common share – Basic	\$(0.00)	\$(0.36)	\$0.01	\$(0.17)
Net income (loss) per common share – Diluted	\$(0.00)	\$(0.36)	\$0.01	\$(0.17)
Weighted average number of shares outstanding – Basic	32,031,426	25,070,386	28,179,853	24,751,674
Weighted average number of shares outstanding – Diluted	32,031,426	25,070,386	29,839,975	24,751,674

See Accompanying Notes to the Consolidated Financial Statements.

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

(Amounts in thousands)

	Nine month period	
	ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	\$ 360	\$ (4,312)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation and amortization	626	600
Value of share-based payment arrangements	29	53
Amortization of deferred finance costs	81	61
Deferred tax asset utilization	193	(1,053)
Allowance for doubtful accounts	48	49
Lower of cost or market adjustment	0	6,694
Changes in assets and liabilities:		
Trade accounts receivable	(5,378)	(4,959)
Inventories	6,314	1,095
Income taxes receivable	2,709	0
Prepaid and other assets	(4,355)	(4,253)
Accounts payable and accrued expenses	4,027	(233)
Deferred income taxes	0	542
Cash provided by (used in) operating activities	4,654	(5,716)
Cash flows from investing activities:		
Additions to patents	(10)	(7)
Additions to property, plant, and equipment	(534)	(556)
Investment in affiliates	63	(47)
Cash used by investing activities	(481)	(610)
Cash flows from financing activities:		
Proceeds from issuance of common stock	15,639	1,110
Proceeds from (repayments of) short-term debt – net	(15,080)	5,337
Repayment of long-term debt	(4,228)	(169)
Cash provided (used) by financing activities	(3,669)	6,278

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Increase (decrease) in cash and cash equivalents	504	(48)
Cash and cash equivalents at beginning of period	669	3,991
Cash and cash equivalents at end of period	\$ 1,173	\$ 3,943
Supplemental Disclosure of Cash Flow Information:		
Cash paid during period for interest	\$ 413	\$ 626
Cash paid during period for income taxes	\$ 0	\$ 1,085

See Accompanying Notes to the Consolidated Financial Statements.

Hudson Technologies, Inc. and subsidiaries

Notes to the Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

Business

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

In preparing the accompanying consolidated financial statements, and in accordance with ASC855-10 "Subsequent Events", the Company's management has evaluated subsequent events through the date that the financial statements were filed.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial information included in this quarterly report should be read in conjunction with the Company's audited financial statements and related notes thereto for the year ended December 31, 2013. Operating results for the nine month period ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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

Consolidation

The consolidated financial statements represent all companies of which Hudson directly or indirectly has majority ownership or otherwise controls. Significant intercompany accounts and transactions have been eliminated. The Company's consolidated financial statements include the accounts of wholly-owned subsidiaries Hudson Holdings, Inc. and Hudson Technologies Company.

Fair Value of Financial Instruments

The carrying values of financial instruments including trade accounts receivable and accounts payable approximate fair value at September 30, 2014 and December 31, 2013, because of the relatively short maturity of these instruments. The carrying value of short and long-term debt approximates fair value, based upon quoted market rates of similar debt issues, as of September 30, 2014 and December 31, 2013.

Credit Risk

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

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

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

For the nine month period ended September 30, 2013, 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 September 30, 2013, there were \$622,000 in outstanding receivables from these customers.

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

Cash and Cash Equivalents

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

Inventories

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

Property, Plant and Equipment

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

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

Revenues and Cost of Sales

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

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

Nine Month Period Ended September 30,	2014	2013
(in thousands, unaudited)		
Refrigerant and reclamation sales	\$44,011	\$50,564
RefrigerantSide® Services	3,744	3,252
Total	\$47,755	\$53,816

Income Taxes

The Company utilizes the asset and liability method for recording deferred income taxes, which provides for the establishment of deferred tax asset or liability accounts based on the difference between tax and financial reporting bases of certain assets and liabilities. The tax benefit associated with the Company's net operating loss carry forwards ("NOLs") is recognized to the extent that the Company is expected to recognize future taxable income. The Company assesses the recoverability of its deferred tax assets based on its expectation that it will recognize future taxable income and adjusts its valuation allowance accordingly. As of September 30, 2014 and December 31, 2013, the net deferred tax asset was \$5,378,000 and \$5,570,000, respectively.

Certain states either do not allow or limit NOLs and as such the Company will be liable for certain state taxes. To the extent that the Company utilizes its NOLs, it will not pay tax on such income but may be subject to the federal alternative minimum tax. In addition, to the extent that the Company's net income, if any, exceeds the annual NOL limitation it will pay income taxes based on existing statutory rates. Moreover, as a result of a "change in control", as defined by the Internal Revenue Service, the Company's ability to utilize its existing NOLs is subject to certain annual limitations. Approximately \$10,600,000 of the Company's \$16,000,000 of NOLs are subject to annual limitations of \$1,300,000.

As a result of an Internal Revenue Service audit, the 2011 and prior federal tax years have been closed. The Company operates in many states throughout the United States and, as of September 30, 2014, the various states' statutes of limitations remain open for tax years subsequent to 2008. The Company recognizes interest and penalties, if any, relating to income taxes as a component of the provision for income taxes.

The IRS recently initiated an examination of the Company's federal income tax returns for the fiscal years 2012 and 2013. The Company does not expect the results of this examination to have a material effect on the Company's financial statements.

The Company evaluates uncertain tax positions, if any, by determining if it is more likely than not to be sustained upon examination by the taxing authorities. As of September 30, 2014 and December 31, 2013, the Company had no uncertain tax positions.

Income per Common and Equivalent Shares

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

	Three Month Period		Nine Month Period	
	ended September 30,		ended September 30,	
	2014	2013	2014	2013
Net income (loss)	\$ (108)	\$ (9,115)	\$ 360	\$ (4,312)