

HUDSON TECHNOLOGIES INC /NY  
Form 10-K  
March 10, 2017

**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, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission file number 1-13412**

**Hudson Technologies, Inc.**

(Exact name of registrant as specified in its charter)

**New York** **13-3641539**  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

P.O. Box 1541

**One Blue Hill Plaza**

**Pearl River, New York**

(Address of Principal Executive Offices)

**10965**

(Zip Code)

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

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

Title of each class

Name of each exchange on which registered

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**  **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**  **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. "

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

Large accelerated filer " Accelerated filer  Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company "

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

The aggregate market value of registrant's common stock held by non-affiliates at June 30, 2016 was approximately \$96,210,824. As of March 1, 2017 there were 41,518,820 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on June 14, 2017, are incorporated by reference in Part III of this Report. Except as expressly incorporated by reference, the Registrant's Proxy Statement shall not be deemed to be part of this Form 10-K.

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

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## 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 operations consist of one reportable segment. The Company's products and services are primarily used in commercial air conditioning, industrial processing and refrigeration systems, and include refrigerant and industrial gas sales, refrigerant management services consisting primarily of reclamation of refrigerants and RefrigerantSide® Services performed at a customer's site, consisting of system decontamination to remove moisture, oils and other contaminants. In addition, the Company's SmartEnergy OPS™ service is a web-based real time continuous monitoring service applicable to a facility's refrigeration systems and other energy systems. The Company's Chiller Chemistry® and Chill Smart® services are also predictive and diagnostic service offerings. As a component of the Company's products and services, the Company also participates in the generation of carbon offset projects. The Company operates principally through its wholly-owned subsidiary, Hudson Technologies Company. Unless the context requires otherwise, references to the "Company", "Hudson", "we", "us", "our", or similar pronouns refer to Hudson Technologies, Inc. and its subsidiaries.

The Company's executive offices are located at One Blue Hill Plaza, Pearl River, New York and its telephone number is (845) 735-6000. The Company maintains a website at [www.hudsontech.com](http://www.hudsontech.com), the contents of which are not incorporated into this filing.

#### 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. In October 2014, the EPA published 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 started at approximately 22 million pounds in 2015 and reduces by approximately 4.5 million pounds each year and ends 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 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. The Company expects that HFC refrigerants eventually will be replaced by HFOs or other types of products with lower global warming potentials.

In October 2016, more than 200 countries, including the United States, agreed to amend the Montreal Protocol to phase down production of HFCs by 85% between now and 2047. The amendment establishes timetables for all developed and developing countries to freeze and then reduce production and use of HFCs, with the first reductions by developed countries starting in 2019. The amendment becomes effective January 1, 2019 if twenty countries ratify the amendment. To date, the amendment has not been ratified by the United States.

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 utilizing CFC and HCFC refrigerants are responsible for the integrity of the systems regardless of the refrigerant being used. In November 2016, the EPA issued a final rule extending these requirements to HFCs and to certain other refrigerants that are approved by the EPA as alternatives for CFC and HCFC refrigerants.

## 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 SmartEnergy OPS™ that identify inefficiencies in the operation of air conditioning and refrigeration systems and assists companies to improve the energy efficiency of their systems and save operating costs and improve system reliability. In addition, the Company is pursuing potential opportunities for the creation and monetization of verified emission reductions.

## Refrigerant and Industrial Gas Sales

The Company sells reclaimed and virgin (new) refrigerants to a variety of customers in various segments of the air conditioning and refrigeration industry, and sells industrial gases to a variety of industry segments. 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 has also been awarded several US patents for its SmartEnergy OPS™, 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. This service is a web-based real time continuous monitoring service applicable to a facility's chiller plant systems. The SmartEnergy OPS™ offering enables customers to monitor and improve their chiller plant performance and proactively identify and correct system inefficiencies. SmartEnergy OPS™ is able to identify specific inefficiencies in the operation of chiller plant 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. Lastly, the Company's ChillSmart® offering, which combines the system optimization 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 engineers who developed and support Smart Energy OPS™ 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, chillers and refrigeration systems for the United Nations Industrial Development Organization ("UNIDO"). The Company's staff have trained more than 4,000 industrial plant personnel in the US and internationally, and have developed and are currently delivering training curriculums in 12 different countries. The Company's staff have completed more than 200 industrial ESAs in the US and internationally.



*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.

In October 2015, the American Carbon Registry (“ACR”) established a methodology to provide, among other things, a quantification framework for the creation of carbon offset credits for the use of certified reclaimed HFC refrigerants. The Company is pursuing opportunities to acquire HFC 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 reclamation of HFC refrigerants.

The following is a summary of revenues over the last three years:

Years Ended December 31,	2016	2015	2014
(in thousands)			
Product and related sales	\$101,344	\$75,154	\$50,460
RefrigerantSide® Services	4,137	4,568	5,350
Total	\$105,481	\$79,722	\$55,810

## Hudson's Network

Hudson operates from a network of facilities located in:

Pearl River, New York	—Company headquarters and 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
Catano, 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. In October 2014, the EPA published 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.

In October 2016, more than 200 countries, including the United States, agreed to amend the Montreal Protocol to phase down production of HFCs by 85% between now and 2047. The amendment establishes timetables for all developed and developing countries to freeze and then reduce production and use of HFCs, with the first reductions by developed countries starting in 2019. The amendment becomes effective January 1, 2019 if twenty countries ratify the amendment. To date, the amendment has not been ratified by the United States.

## 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. The Company generates sales by purchase order on a real-time basis and therefore does not carry a backlog of sales.

For the year ended December 31, 2016, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 30% of the Company's revenues. At December 31, 2016, there were no outstanding receivables from these customers.

For the year ended December 31, 2015, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 33% of the Company's revenues. At December 31, 2015, there were no outstanding receivables from these customers.

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 \$0.7 million 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.hudsonotech.com](http://www.hudsonotech.com)). Information on 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.

#### 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 four certified refrigerant testing laboratories in the United States 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 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 is also subject to regulations adopted by the California Air Resources Board which impose certain reporting requirements arising out of the reclamation and sale of refrigerants that takes place within the State of California.

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, 2016, the Company had 137 full 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 it has good relations with its employees.

#### Patents and Proprietary Information

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 2031.

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.

## SEC Filings

The Company makes available on its internet website copies of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments thereto, as soon as reasonably practicable after they are filed with the Securities and Exchange Commission.

## **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 2020, 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 2020 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 majority 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 amendment to the Montreal Protocol, if ratified, and any legislation and regulation enacted to implement the amendment, 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. 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. In addition, an amendment to the Montreal Protocol has established timetables for all developed and developing countries to freeze and then reduce production and use of HFCs by 85% between now and 2047, with the first reductions by developed countries starting in 2019. The amendment becomes effective January 1, 2019 if twenty countries ratify the amendment. To date, the amendment has not been ratified by the United States. It is unclear if the United States will ratify the amendment and, if it does ratify the amendment, what legislation and/or regulations will be enacted to implement the amendment.

***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 could be subject to "penny stock" rules which would 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 has significant control over our affairs.**

Currently, our officers and directors collectively own approximately 13% 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.

***Our information technology systems, processes, and sites may suffer interruptions, failures, or attacks which could affect our ability to conduct business.***

Our information technology systems provide critical data connectivity, information and services for internal and external users. These include, among other things, processing transactions, summarizing and reporting results of operations, complying with regulatory, legal or tax requirements, storing project information and other processes necessary to manage the business. Our systems and technologies, or those of third parties on which we rely, could fail or become unreliable due to equipment failures, software viruses, cyber threats, terrorist acts, natural disasters, power failures or other causes. Cybersecurity threats are evolving and include, but are not limited to, malicious software, cyber espionage, attempts to gain unauthorized access to our sensitive information, including that of our customers, suppliers, and subcontractors, and other electronic security breaches that could lead to disruptions in mission critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data. Although we utilize various procedures and controls to monitor and mitigate these threats, there can be no assurance that these procedures and controls will be sufficient to prevent security threats from materializing. If any of these events were to materialize, the costs related to cyber or other security threats or disruptions may not be fully insured or indemnified and could have a material adverse effect on our reputation, operating results, and financial condition.

**Item 1B. Unresolved Staff Comments**

None.

Item 2. Properties

The Company's headquarters are located in a 6,100 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 approximately \$150,000 pursuant to an agreement expiring in December 2021.

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, 2016, the Company has \$93,000 outstanding under this mortgage.

The Company has established a second facility in Champaign, Illinois, which is a 135,000 square foot facility. The building is leased from an unaffiliated third party at an annual rental of \$504,000, pursuant to an arrangement expiring in December 2018.

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 \$173,000 pursuant to an agreement expiring March 2018.

The Company's Ontario, California facility is a 20,000 square foot facility leased from an unaffiliated third party at an annual rental of \$90,000 pursuant to an agreement expiring in December 2018.

The Company's Catano, Puerto Rico facility is a 15,000 square foot facility leased from an unaffiliated third party at an annual rental of \$124,000 pursuant to an agreement expiring in December 2020.

The Company's Auburn, Washington depot facility is a 6,000 square foot facility located in a multi-tenant building leased from an unaffiliated third party at an annual rental of \$39,000 pursuant to an agreement expiring August 2018.

The Company's Baton Rouge, Louisiana 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 \$23,000 pursuant to an agreement expiring in May 2019.

The Company's Charlotte, North Carolina depot facility is a 2,600 square foot facility located in a multi-tenant building leased from an unaffiliated third party at an annual rental of \$26,000 pursuant to an agreement expiring in May 2019.

The Company's Escondido, California depot facility is a 6,000 square foot facility leased from a company that is owned by a non-executive employee at an annual rental of \$36,000 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 \$90,000 pursuant to an agreement expiring in June 2021.



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 \$27,000 which includes our share of operating expenses. This lease expires December 2017.

The Company's Hampstead, New Hampshire telemarketing facility is located in a 2,546 square foot office facility located in a multi-tenant building leased from an unaffiliated third party at an annual rental of \$52,000 pursuant to an agreement expiring in August 2022.

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 \$6,000 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.

Since September 2000, last modified in March 2013, the Company signed an Order on Consent with the New York State Department of Environmental Conservation ("DEC") whereby the Company agreed to operate a remediation system to reduce R-11 refrigerant levels in the groundwater under and around the Hillburn Facility and agreed to perform periodic testing at the Hillburn Facility until remaining groundwater contamination has been effectively abated. 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. The Company has exhausted all insurance proceeds available for the 1999 Release under all applicable policies.

In May 2000 the Hillburn Facility, as a result of the 1999 Release, was nominated by EPA for listing on the National Priorities List (“NPL”) pursuant to CERCLA. 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.

During the years ended December 31, 2016, 2015 and 2014 the Company incurred none, none, and \$53,000, respectively, in additional remediation costs in connection with the matters above. The remaining liability on our Balance Sheet as of December 31, 2016 is approximately \$150,000. 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 II

Item 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
2015		
- First Quarter	\$4.56	\$3.35
- Second Quarter	\$4.75	\$3.40
- Third Quarter	\$3.58	\$2.45
- Fourth Quarter	\$3.56	\$2.69
2016		
- First Quarter	\$3.69	\$2.64
- Second Quarter	\$3.95	\$3.09
- Third Quarter	\$6.72	\$3.26
- Fourth Quarter	\$8.50	\$5.55

**Stock Price Performance Graph**

The following graph illustrates a comparison of the total cumulative stockholder return on our common stock since December 31, 2011, to two indices: the NASDAQ Composite Index and the Nasdaq Industrial Index. The stockholder return shown in the graph below is not necessarily indicative of future performance, and we do not make or endorse any predictions as to future stockholder returns.

*The above Stock Price Performance Graph and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into*

*any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.*

The number of record holders of the Company's common stock was approximately 153 as of March 1, 2017. The Company believes that there are in excess of 3,294 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.

Item 6. Selected Financial Data

The following selected financial data, with respect to our financial position and results of operations for each of the five fiscal years in the period ended December 31, 2016, set forth below, has been derived from, should be read in conjunction with and is qualified in its entirety by reference to, our consolidated financial statements and notes thereto, included either elsewhere in this report or in reports we have filed previously with the SEC. The selected financial data presented below should also be read in conjunction with ITEM 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

(Amounts in thousands, except per share data)	For the Year Ended				
	2016	2015	2014	2013	2012
Selected Statement of Operations Data:					
Revenues	\$105,481	\$79,722	\$55,810	\$58,634	\$56,447
Gross Profit	\$31,086	\$18,489	\$6,446	\$(730 )	\$22,542
Operating Income (Loss)	\$18,947	\$8,181	\$(985 )	\$(8,485 )	\$14,880
Net income (loss)	\$10,637	\$4,763	\$(720 )	\$(5,842 )	\$12,801
Net income (loss) per share - Basic	\$0.31	\$0.15	\$(0.02 )	\$(0.24 )	\$0.54
Net income (loss) per share- Diluted	\$0.30	\$0.14	\$(0.02 )	\$(0.24 )	\$0.49
Weighted average number of shares- Basic	34,104	32,547	29,123	24,826	23,907
Weighted average number of shares- Diluted	35,417	33,936	29,123	24,826	26,354
Selected Balance Sheet Data:					
Cash and cash equivalents	\$33,931	\$1,258	\$935	\$669	\$3,991
Inventory	\$68,601	\$61,897	\$37,017	\$33,967	\$40,167
Total assets	\$122,470	\$85,011	\$59,935	\$52,368	\$57,232
Debt- short and long-term	\$351	\$24,866	\$10,709	\$20,038	\$17,656
Stockholders’ Equity	\$112,017	\$49,425	\$43,999	\$28,086	\$32,696

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 estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. To the extent that actual results differ from management's judgments and estimates, there could be a material adverse effect on the Company. On a continuous basis, the Company evaluates its estimates, including, but not limited to, those estimates related to its allowance for doubtful accounts, inventory reserves, and valuation allowance for the deferred tax assets relating to its net operating loss carry forwards ("NOLs") and commitments and contingencies. With respect to accounts receivable, the Company estimates the necessary allowance for doubtful accounts based on both historical and anticipated trends of payment history and the ability of the customer to fulfill its obligations. For inventory, the Company evaluates both current and anticipated sales prices of its products to determine if a write down of inventory to net realizable value is necessary. In determining the Company's valuation allowance for its deferred tax assets, the Company assesses its ability to generate taxable income in the future. Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business combinations accounted for under the purchase method of accounting. The Company tests for any impairment of goodwill annually. Intangibles with determinable lives are amortized over the estimated useful lives of the assets currently ranging from 2 to 10 years. The Company reviews these useful lives annually to determine that they reflect future realizable value. The Company utilizes both internal and external sources to evaluate potential current and future liabilities for various commitments and contingencies. In the event that the assumptions or conditions change in the future, the estimates could differ from the original estimates.

## Overview

Sales of refrigerants continue to represent a significant majority of the Company's revenues. The Company's refrigerant sales are primarily HCFC and HFC based refrigerants and to a lesser extent CFC based refrigerants that are no longer manufactured. Currently the Company purchases virgin HCFC and HFC refrigerants and reclaimable HCFC, HFC and CFC refrigerants from suppliers and its customers. Effective January 1, 1996, the Clean Air Act (the "Act") prohibited the production of virgin CFC refrigerants and limited the production of virgin HCFC refrigerants, which production was further limited in January 2004. Federal regulations enacted in January 2004 established production and consumption allowances for HCFCs and imposed limitations on the importation of certain virgin HCFC refrigerants. Under the Act, production of certain virgin HCFC refrigerants is scheduled to be phased out during the period 2010 through 2020, and production of all virgin HCFC refrigerants is scheduled to be phased out by 2030. In October 2014, the EPA published the Final Rule 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 started at approximately 22 million pounds in 2015 and is being reduced by approximately 4.5 million pounds each year and ends at zero in 2020.

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

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

In July 2016 the Company was awarded, as prime contractor, a five-year contract, including a five-year renewal option, by the United States Defense Logistics Agency ("DLA") for the management, supply, and sale of refrigerants, compressed gases, cylinders and related terms.

## Results of Operations

Year ended December 31, 2016 as compared to the year ended December 31, 2015

Revenues for the year ended December 31, 2016 were \$105.5 million, an increase of \$25.8 million or 32% from the \$79.7 million reported during the comparable 2015 period. The increase in revenues was attributable to an increase in refrigerant revenues of \$26.2 million, offset by a reduction in services revenues of \$0.4 million. The increase in refrigerant revenue is primarily related to an increase in the selling price per pound of certain refrigerants sold, which accounted for an increase in revenues of \$17.6 million, as well as an increase in the number of pounds of certain refrigerants sold, which accounted for an increase in revenues of \$8.6 million.

Cost of sales for the year ended December 31, 2016 was \$74.4 million or 71% of sales. The cost of sales for the year ended December 31, 2015 was \$61.2 million or 77% of sales. The decrease in the cost of sales percentage from 77% for the year ended December 31, 2015 to 71% for the year ended December 31, 2016 is primarily due to the increase in the selling price per pound of certain refrigerants sold and to a lesser extent, increases in volume sold for the year ended December 31, 2016 compared to the same period in 2015.

Operating expenses for the year ended December 31, 2016 were \$12.1 million, an increase of \$1.8 million from the \$10.3 million reported during the comparable 2015 period. The increase in operating expenses is primarily due to an increase in non-cash, non-recurring stock compensation expense and professional fees in 2016 when compared to 2015.

Other expense for the year ended December 31, 2016 was \$1.7 million, compared to the \$0.5 million reported during the comparable 2015 period. The Company recorded \$0.6 million of expense relating to a deferred acquisition cost in 2016, compared to \$0.3 million of income in 2015. Interest expense included in Other expense increased from \$0.8 million in 2015 to \$1.1 million in 2016. The increase in interest expense is due to increased borrowings under the PNC Credit Facility. As of December 31, 2016, the Company paid off its borrowings under the PNC Credit Facility.

Income tax expense for the year ended December 31, 2016 was \$6.6 million compared to income tax expense for the year ended December 31, 2015 of \$2.9 million. The \$3.7 million increase was attributable to higher pre-tax income for 2016 when compared to 2015. For 2016 and 2015 the income tax expense was for federal and state income tax at statutory rates applied to the pre-tax income.

Net income for the year ended December 31, 2016 was \$10.6 million, an increase of \$5.8 million from the \$4.8 million net income reported during the comparable 2015 period, primarily due to the increase in revenues, partially offset by an increase in operating expenses and income tax expense.

Year ended December 31, 2015 as compared to the year ended December 31, 2014



Revenues for the year ended December 31, 2015 were \$79.7 million, an increase of \$23.9 million or 43% from the \$55.8 million reported during the comparable 2014 period. The increase in revenues was attributable to an increase in refrigerant revenues of \$24.7 million, offset in part by a decrease in RefrigerantSide® Services revenues of \$0.8 million. The increase in refrigerant revenue is related to both an increase in the selling price per pound of certain refrigerants sold, which accounted for an increase in revenues of \$17.4 million, as well as an increase in the number of pounds of certain refrigerants sold, which accounted for an increase in revenues of \$7.3 million. The decrease in RefrigerantSide® Services was primarily attributable to a decrease in the price of jobs completed when compared to the same period in 2014.

Cost of sales for the year ended December 31, 2015 was \$61.2 million or 77% of sales. Cost of sales for year ended December 31, 2014 was \$49.4 million, or 88% of sales. The decrease in the cost of sales percentage, from 88% in 2014 to 77% in 2015, is related to the increase in the selling price per pound of refrigerants, as described in the revenue discussion above.

Operating expenses for the year ended December 31, 2015 were \$10.3 million, an increase of \$2.9 million from the \$7.4 million reported during the comparable 2014 period. The increase in operating expenses is primarily attributable to payroll expenses of \$2.4 million, of which approximately \$1.1 million is associated with payroll for the acquisitions completed in late 2014 and early 2015 as well as approximately \$0.5 million of amortization of intangibles associated with these same acquisitions.

Other expense for the year ended December 31, 2015 was \$0.5 million, compared to the \$0.6 million reported during the comparable 2014 period. Other expense consists of interest expense of \$0.8 million and \$0.6 million for the comparable 2015 and 2014 periods, respectively. The increase in interest expense is due to increased borrowing on the PNC credit facility. Additionally, other expense includes other income of \$0.3 million in 2015 related to the 2015 acquisition earn out that was less than the total amount that had been recorded as part of the purchase price accounting for the acquisition of a supplier of refrigerants and compressed gases.

Income tax expense for the year ended December 31, 2015 was \$2.9 million compared to an income tax benefit of \$0.9 million reported during the comparable 2014 period. For 2015 the income tax expense of \$2.9 million was for federal and state income tax at statutory rates applied to the pre-tax income. For 2014 the income tax benefit of \$0.9 million 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.

Net income for the year ended December 31, 2015 was \$4.8 million, an increase of \$5.5 million from the \$0.7 million net loss reported during the comparable 2014 period, primarily due to the increase in revenue and gross profit partially offset by increases in operating expenses, interest expense and income tax expense.

### **Liquidity and Capital Resources**

At December 31, 2016, the Company had working capital, which represents current assets less current liabilities, of \$97.9 million, an increase of \$59.4 million from the working capital of \$38.5 million at December 31, 2015. The increase in working capital is primarily attributable to increased net income and the December 2016 public offering, as discussed further below.

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, 2016, was \$9.3 million compared with net cash used in operating activities of \$10.5 million for the comparable 2015 period and net cash provided by operating activities of \$1.7 million for the comparable 2014 period. Net cash provided by operating activities for the 2016 period was primarily attributable to net income, offset by increases in accounts receivable and inventory. Net cash used by operating activities for the 2015 period was primarily attributable to an increase in inventory partially offset by net income, the utilization of the deferred tax assets, as well as increases in accounts payable and accrued expenses. 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, 2016, was \$1.7 million, compared with net cash used by investing activities of \$3.3 million for the comparable 2015 period, and net cash used by investing activities of \$8.0 million for the comparable 2014 period. The net cash used by investing activities for the 2016 period was primarily related to investment in general purpose equipment for the Company's reclamations operations. The net cash used by investing activities for the 2015 period was primarily related to the acquisition of a refrigerant and compressed gases supplier, as well as investment in general purpose equipment for the Company's Champaign, Illinois facility. 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, 2016, was \$25.1 million compared with net cash provided by financing activities of \$14.2 million for the comparable 2015 period, and net cash provided by financing activities of \$6.6 million for the comparable 2014 period. The net cash provided by financing activities for the 2016 period was primarily due to the proceeds from the issuance of common stock, offset by the repayment of debt and payment of deferred acquisition cost. The net cash provided by financing activities for the 2015 period was primarily due to increased borrowings on the PNC credit facility. 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.

The Company had cash and cash equivalents of \$33.9 million and \$1.3 million at December 31, 2016 and 2015, respectively, with no debt currently outstanding under the current PNC facility. The Company may, to the extent necessary, continue to utilize its cash balances to purchase equipment primarily for its operations. The Company continues to assess its capital expenditure needs.

The following is a summary of the Company's significant contractual obligations for the periods indicated that existed as of December 31, 2016 (in 000's):

	Twelve Month Period Ending December 31,						
	2017	2018	2019	2020	2021	Thereafter	Total
Long and short term debt and capital lease obligations:							
Principal	\$199	\$93	\$47	\$9	\$3	\$ —	\$351
Estimated interest (1)	10	5	1	—	—	—	16
Operating leases	1,368	1,145	464	446	253	35	3,711
Acquisition earn out	789	—	—	—	—	—	789
Total contractual obligations	\$2,366	\$1,243	\$512	\$455	\$256	\$ 35	\$4,867

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

On June 22, 2012, a subsidiary of Hudson entered into a Revolving Credit, Term Loan and Security Agreement (the "PNC Facility") with PNC Bank, National Association, as agent ("Agent" or "PNC"), and such other lenders as may thereafter become a party to the PNC Facility. The Maximum Loan Amount (as defined in the PNC Facility) is currently \$50,000,000, and the Maximum Revolving Advance Amount (as defined in the PNC Facility) is \$46,000,000. In December 2016, the Company repaid all of its debt under the current PNC facility. The Termination

Date of the Facility (as defined in the PNC Facility) is June 30, 2020.

Under the terms of the original PNC Facility, as amended by the First Amendment to the PNC Facility, dated February 15, 2013, Hudson could initially borrow up to a maximum of \$40,000,000 consisting of a term loan in the principal amount of \$4,000,000 and revolving loans in a maximum amount up to \$36,000,000. Amounts borrowed under the PNC Facility may be used by Hudson for working capital needs and to reimburse drawings under letters of credit.

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

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

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

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

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

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

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

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

On April 8, 2016, the Company entered into the Fifth Amendment to the PNC Facility (the “Fifth PNC Amendment”). Pursuant to the Fifth PNC Amendment, the Maximum Loan Amount (as defined in the PNC Facility) has been increased from \$40,000,000 to \$50,000,000, and the Maximum Revolving Advance Amount (as defined in the PNC Facility) has been increased from \$36,000,000 to \$46,000,000. Additionally, pursuant to the Fifth PNC Amendment the Termination Date of the Facility (as defined in the PNC Facility) has been extended to June 30, 2020. In December 2016, the Company repaid its entire debt under the PNC Facility, with approximately \$44 million of availability under the revolving line of credit at December 31, 2016. In addition, there is a \$130,000 outstanding letter of credit under the PNC Facility at December 31, 2016.

The Company was in compliance with all covenants, under the PNC Facility as of December 31, 2016. The Company’s ability to comply with these covenants in future quarters may be affected by events beyond the Company’s control, including general economic conditions, weather conditions, regulations and refrigerant pricing. Although we expect to remain in compliance with all covenants in the PNC Facility, as amended, depending on our future operating performance and general economic conditions, we cannot make any assurance that we will continue to be in compliance.

The commitments under the PNC Facility will expire and the full outstanding principal amount of the loans, together with accrued and unpaid interest, are due and payable in full on June 30, 2020, unless the commitments are terminated for any reason or the outstanding principal amount of the loans are accelerated sooner following an event of default.

#### December 2016 Public Offering

On December 8, 2016 the Company entered into an Underwriting Agreement with two investment banking firms for themselves and as representatives for two other investment banking firms (collectively, the “Underwriters”), in connection with an underwritten offering (the “Offering”) of 6,428,571 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 6,428,571 shares of common stock and also granted the Underwriters a 30 day option to purchase up to 964,285 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 December 14, 2016, at which time the Company sold 7,392,856 shares of its common stock to the Underwriters (including 964,285 shares to cover over-allotments) at a price to the public of \$7.00 per share, less underwriting discounts and commissions, and received gross proceeds of \$51.7 million. The Company incurred approximately \$3.3 million of transaction fees in connection with the Offering, resulting in net

proceeds of \$48.4 million.



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, 2016, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 30% of the Company's revenues. At December 31, 2016, there were no outstanding receivables from these customers.

For the year ended December 31, 2015, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for 33% of the Company's revenues. At December 31, 2015, there were no outstanding receivables from these customers.

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 \$0.7 million 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 nine months 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.

#### Off-Balance Sheet Arrangements

None.

## Recent Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments." This ASU addresses eight specific cash flow issues with the objective of eliminating the existing diversity in practice. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and for interim periods therein. We elected to adopt ASU 2016-15 as of December 31, 2016, and the adoption did not have a material impact on the presentation of the statement of cash flows.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses." This ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and for interim periods therein. The Company does not expect the amended standard to have a material impact on the Company's results of operations.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting." Excess tax benefits and deficiencies will be recognized in the consolidated statement of earnings rather than capital in excess of par value of stock on a prospective basis. A policy election will be available to account for forfeitures as they occur, with the cumulative effect of the change recognized as an adjustment to retained earnings at the date of adoption. Excess tax benefits within the consolidated statement of cash flows will be presented as an operating activity (prospective or retrospective application) and cash payments to tax authorities in connection with shares withheld for statutory tax withholding requirements will be presented as a financing activity (retrospective application). The guidance is effective beginning in 2017. The Company expects that the future adoption of ASU No. 2016-09 will not have a material impact on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*." The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted. A modified retrospective transition approach is required for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. At a minimum, adoption of ASU 2016-02 will require recording a ROU asset and a lease liability on the Company's consolidated balance sheet; however, the Company is still currently evaluating the impact on its consolidated financial statements. See Note 10 for the current anticipated future operating lease payments.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes". ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in ASU 2015-17 apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected. For public business entities, the amendments in ASU 2015-17 are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company elected to early adopt ASU 2015-17 prospectively in the fourth quarter of 2016. As a result, all deferred tax assets and liabilities have been presented as noncurrent on the consolidated balance sheet as of December 31, 2016. There was no impact on our results of operations as a result of the adoption of ASU 2015-17 and prior periods have not been adjusted.

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments", or ASU 2015-16. This amendment requires the acquirer in a business combination to recognize in the reporting period in which adjustment amounts are determined, any adjustments to provisional amounts that are identified during the measurement period, calculated as if the accounting had been completed at the acquisition date. Prior to the issuance of ASU 2015-16, an acquirer was required to restate prior period financial statements as of the acquisition date for adjustments to provisional amounts. The amendments in ASU 2015-16 are to be applied prospectively upon adoption. The Company adopted ASU 2015-16 in the fourth quarter of 2016. The adoption of the provisions of ASU 2015-16 did not have a material impact on its results of operations or financial position.

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." The new revenue recognition standard provides a five-step analysis to determine when and how revenue is recognized. The standard requires that a company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. This ASU is effective for annual periods beginning after December 15, 2017 and will be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the impact of the pending adoption of ASU 2014-09.

## **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 \$50,000,000 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, 2016 interest charges with respect to loans are computed on the actual principal amount of loans outstanding during the month at a rate per annum equal to (A) with respect to Domestic Rate Loans (as defined in the PNC Facility), the sum of the Alternate Base Rate (as defined in the PNC Facility) plus one half of one percent (.50%) and (B) with respect to Eurodollar Rate Loans, the sum of the Eurodollar Rate plus two and one quarter of one percent (2.25%). There was \$0 outstanding balance on the PNC Facility as of December 31, 2016. 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 or write downs of inventory, 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 provided 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, 2016 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, 2016. 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 (2013)*. Based on our assessment, the Company's Chief Executive Officer and Chief Financial Officer believe that, as of December 31, 2016, the Company's internal control over financial reporting is effective based on those criteria.

BDO USA, LLP, the independent registered public accounting firm which audits our financial statements, has audited our internal control over financial reporting as of December 31, 2016 and has expressed an unqualified opinion thereon.

## **Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

Hudson Technologies, Inc.

Pearl River, NY

We have audited Hudson Technologies Inc.'s and Subsidiaries internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Hudson Technologies Inc.'s and Subsidiaries management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Hudson Technologies Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hudson Technologies Inc. and Subsidiaries as of December 31, 2016 and 2015, and the consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 10, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Stamford, CT

March 10, 2017

**Item 9B. Other Information**

None

**Part III**

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

Reference is made to the disclosure required by Items 401, 405, 406, and 407(c)(3), (d)(4), and (d)(5) of Regulation S-K to be contained in the Registrant's definitive proxy statement to be mailed to stockholders on or about April 28, 2017, and to be filed with the Securities and Exchange Commission.

**Item 11. Executive Compensation**

Reference is made to the disclosure required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K to be contained in the Registrant's definitive proxy statement to be mailed to stockholders on or about April 28, 2017, and to be filed with the Securities and Exchange Commission.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Reference is made to the disclosure required by Item 403 of Regulation S-K to be contained in the Registrant's definitive proxy statement to be mailed to stockholders on or about April 28, 2017, and to be filed with the Securities Exchange Commission.

**Equity Compensation Plan**

The following table provides certain information with respect to all of Hudson's equity compensation plans as of December 31, 2016.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	3,214,398	\$ 2.68	3,251,340

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

Reference is made to the disclosure required by Items 404 and 407(a) of Regulation S-K to be contained in the Registrant's definitive proxy statement to be mailed to stockholders on or about April 28, 2017, and to be filed with the Securities and Exchange Commission.

**Item 14. Principal Accountant Fees and Services**

Reference is made to the proposal regarding the approval of the Registrant's independent registered public accounting firm to be contained in the Registrant's definitive proxy statement to be mailed to stockholders on or about April 28, 2017, and to be filed with the Securities and Exchange Commission.

**Part IV**

**Item 15. Exhibits and Financial Statement Schedules**

(A)(1)Financial Statements

The consolidated financial statements of Hudson Technologies, Inc. appear after Item 16 of this report

(A)(2)Financial Statement Schedules

None

(A)(3)Exhibits

- 3.1 Certificate of Incorporation and Amendment. (1)
- 3.2 Amendment to Certificate of Incorporation, dated July 20, 1994. (1)
- 3.3 Amendment to Certificate of Incorporation, dated October 26, 1994. (1)
- 3.4 Certificate of Amendment of the Certificate of Incorporation dated March 16, 1999. (2)
- 3.5 Certificate of Correction of the Certificate of Amendment dated March 25, 1999. (2)
- 3.6 Certificate of Amendment of the Certificate of Incorporation dated March 29, 1999. (2)
- 3.7 Certificate of Amendment of the Certificate of Incorporation dated February 16, 2001. (4)
- 3.8 Certificate of Amendment of the Certificate of Incorporation dated March 20, 2002. (5)
- 3.9 Amendment to Certificate of Incorporation dated January 3, 2003. (6)
- 3.10 Amended and Restated By-Laws adopted July 29, 2011. (14)
- 3.11 Certificate of Amendment of the Certificate of Incorporation dated September 15, 2015. (24)
- 10.1 Assignment of patent rights from Kevin J. Zugibe to Registrant. (1)
- 10.2 1997 Stock Option Plan of the Company, as amended. (3) \*
- 10.3 2004 Stock Incentive Plan. (9)\*
- 10.4 Commercial Mortgage, dated May 27, 2005, between Hudson Technologies Company and Busey Bank. (7)
- 10.5 Commercial Installment Mortgage Note, dated May 27, 2005, between Hudson Technologies Company and Busey Bank. (7)
- 10.6 Amended and Restated Employment Agreement with Kevin J. Zugibe, as amended. (11)\*
- 10.7 Agreement with Brian F. Coleman, as amended. (11)\*
- 10.8 Agreement with James R. Buscemi, as amended. (11)\*
- 10.9 Agreement with Charles F. Harkins, as amended. (11)\*