HUDSON TECHNOLOGIES INC /NY
Form 10-Q
November 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from ____________ to ____________

Commission file number 1-13412

Hudson Technologies, Inc.

(Exact name of registrant as specified in its charter)

New York	**13-3641539**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Blue Hill Plaza P.O. Box 1541 Pearl River, New York	**10965**
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x **Yes** ¨ **No**

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

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

Common stock, $0.01 par value	42,599,431 shares
Class	**Outstanding at November 16, 2018**

Hudson Technologies, Inc.

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Part I – FINANCIAL INFORMATION

Item 1-Financial Statements

Hudson Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

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

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 1,378	$ 5,002
Trade accounts receivable – net	23,166	14,831
Inventories	106,508	172,485
Income tax receivable	-	9,664
Prepaid expenses and other current assets	3,560	6,934
Total current assets	134,612	208,916
Property, plant and equipment, less accumulated depreciation	28,330	30,461
Deferred tax asset	-	-
Goodwill	47,803	49,464
Intangible assets, less accumulated amortization	30,194	32,419
Other assets	72	184
Total Assets	$ 241,011	$ 321,444
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	$ 10,836	$ 10,885
Accrued expenses and other current liabilities	21,545	15,221
Accrued payroll	1,916	3,052
Current maturities of long-term debt	1,050	1,050
Short-term debt	29,065	65,152
Total current liabilities	64,412	95,360
Deferred tax liability	372	1,473
Long-term debt, less current maturities	99,675	101,158
Total Liabilities	164,459	197,991

Commitments and contingencies		
Stockholders' equity:		
Preferred stock, shares authorized 5,000,000: Series A Convertible preferred stock, $0.01 par value ($100 liquidation preference value); shares authorized 150,000; none issued or outstanding	-	-
Common stock, $0.01 par value; shares authorized 100,000,000; issued and outstanding 42,599,431 and 42,398,140	426	424
Additional paid-in capital	114,951	114,302
Retained earnings (accumulated deficit)	(38,825)	8,727
Total Stockholders' Equity	76,552	123,453
Total Liabilities and Stockholders' Equity	$ 241,011	$ 321,444

See Accompanying Notes to the Consolidated Financial Statements.

Hudson Technologies, Inc. and Subsidiaries

Consolidated Statements of Operations

(unaudited)

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

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Revenues	$40,545	$24,706	$140,804	$115,766
Cost of sales	32,816	19,636	151,252	80,811
Gross profit	7,729	5,070	(10,448)	34,955
Operating expenses:				
Selling, general and administrative	7,356	3,473	26,038	9,823
Amortization	742	121	2,225	364
Total operating expenses	8,098	3,594	28,263	10,187
Operating income (loss)	(369)	1,476	(38,711)	24,768
Interest expense	4,064	24	10,616	170
(Loss) income before income taxes	(4,433)	1,452	(49,327)	24,598
Income tax expense (benefit)	9,447	(652)	(1,775)	8,236
Net (loss) income	$(13,880)	$2,104	$(47,552)	$16,362
Net (loss) income per common share – Basic	$(0.33)	$0.05	$(1.12)	$0.39
Net (loss) income per common share – Diluted	$(0.33)	$0.05	$(1.12)	$0.38
Weighted average number of shares outstanding – Basic	42,530,476	41,869,528	42,445,926	41,648,439
Weighted average number of shares outstanding – Diluted	42,530,476	43,463,982	42,445,926	43,173,427

See Accompanying Notes to the Consolidated Financial Statements.

Hudson Technologies, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(unaudited)

(Amounts in thousands, except for share amounts)

	Common Stock		**Additional Paid-in Capital**	**Retained Earnings (Accumulated Deficit)**	**Total**
	Shares	**Amount**			
Balance at January 1, 2017	**41,465,820**	**$ 415**	**$ 114,032**	**$ (2,430)**	**$ 112,017**
Issuance of common stock upon exercise of stock options and warrants	1,207,729	12	795	-	807
Tax withholdings related to net share settlements of stock option awards	(281,645)	(3)	(2,023)	-	(2,026)
Issuance of common stock for services	6,236	-	47	-	47
Value of share-based arrangements	-	-	1,451	-	1,451
Net income	-	-	-	11,157	11,157
Balance at December 31, 2017	**42,398,140**	**$ 424**	**$ 114,302**	**$ 8,727**	**$ 123,453**
Issuance of common stock upon exercise of stock options and warrants	5,000		17	-	17
Issuance of common stock for services	196,291	2	346	-	348
Value of share based arrangements			286		286
Net (loss)	-	-	-	(47,552)	(47,552)
Balance at September 30, 2018	**42,599,431**	**$ 426**	**$ 114,951**	**$ (38,825)**	**$ 76,552**

See Accompanying Notes to the Consolidated Financial Statements.

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Hudson Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Decrease) Increase in Cash and Cash Equivalents

(unaudited)

(Amounts in thousands)

	Nine months ended September 30, 2018	2017
Cash flows from operating activities:		
Net (loss) income	$ (47,552)	$ 16,362
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Depreciation	3,123	1,324
Amortization of intangible assets	2,225	364
Amortization of step-up in inventory basis	2,520	-
Lower of cost or net realizable value reserve	26,694	-
Allowance for doubtful accounts	14	90
Value of share-based arrangements	632	28
Amortization of deferred finance costs	757	33
Deferred tax (benefit) expense	(1,101)	658
Changes in assets and liabilities:		
Trade accounts receivable	(8,348)	(9,241)
Inventories	38,424	4,790
Prepaid and other assets	3,124	(5,754)
Income taxes receivable	9,664	793
Accounts payable and accrued expenses	5,138	2,690
Cash provided by operating activities	35,314	12,137
Cash flows from investing activities:		
Additions to property, plant, and equipment	(992)	(861)
Cash used in investing activities	(992)	(861)
Cash flows from financing activities:		
Payment of deferred acquisition costs	-	(528)
Proceeds from issuance of common stock	17	722
Deferred financing costs	(1,045)	-
Tax payment withholdings related to settlements of stock option awards	-	(1,235)
Repayment of short-term debt – net	(36,086)	-
Repayment of long-term debt	(832)	(172)
Cash used in financing activities	(37,946)	(1,213)

(Decrease) increase in cash and cash equivalents	(3,624)	10,063
Cash and cash equivalents at beginning of period	5,002	33,931
Cash and cash equivalents at end of period	$ 1,378	$ 43,994
Supplemental Disclosure of Cash Flow Information:		
Cash paid during period for interest	$ 8,718	$ 227
Cash (refund) paid for income taxes – net	$ (10,338)	$ 6,785

See Accompanying Notes to the Consolidated Financial Statements.

Hudson Technologies, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

(unaudited)

Note 1 - Summary of Significant Accounting Policies

Business

Hudson Technologies, Inc., incorporated under the laws of New York on January 11, 1991, is a refrigerant services company providing innovative solutions to recurring problems within the refrigeration industry. The Company's operations consist of one reportable segment. The Company's products and services are primarily used in commercial air conditioning, industrial processing and refrigeration systems, and include refrigerant and industrial gas sales, refrigerant management services consisting primarily of reclamation of refrigerants and RefrigerantSide® Services performed at a customer's site, consisting of system decontamination to remove moisture, oils and other contaminants. In addition, the Company's SmartEnergy OPS® service is a web-based real time continuous monitoring service applicable to a facility's refrigeration systems and other energy systems. The Company's Chiller Chemistry® and Chill Smart® services are also predictive and diagnostic service offerings. As a component of the Company's products and services, the Company also participates in the generation of carbon offset projects. The Company operates principally through its wholly-owned subsidiaries, Hudson Technologies Company and Aspen Refrigerants, Inc., which was formerly known as Airgas-Refrigerants, Inc. prior to the recent acquisition described below. Unless the context requires otherwise, references to the "Company", "Hudson", "we", "us", "our", or similar pronouns refer to Hudson Technologies, Inc. and its subsidiaries.

On October 10, 2017, the Company and its wholly-owned subsidiary, Hudson Holdings, Inc. ("Holdings") completed the acquisition (the "Acquisition") from Airgas, Inc. ("Airgas") of all of the outstanding stock of Airgas-Refrigerants, Inc., a Delaware corporation ("ARI"), and effective October 11, 2017, ARI's name was changed to Aspen Refrigerants, Inc. At closing, Holdings paid net cash consideration to Airgas of approximately $209 million, which includes preliminary post-closing adjustments relating to: (i) changes in the net working capital of ARI as of the closing relative to a net working capital target, (ii) the actual amount of specified types of R-22 refrigerant inventory on hand at closing relative to a target amount thereof, and (iii) other consideration pursuant to the stock purchase agreement.

The cash consideration paid by Holdings at closing was financed with available cash balances, plus $80 million of borrowings under an enhanced asset-based lending facility of $150 million from PNC Bank and a new term loan of $105 million from funds advised by FS Investments.

In preparing the accompanying consolidated financial statements, and in accordance with Accounting Standards Codification (ASC) 855-10 “Subsequent Events”, the Company’s management has evaluated subsequent events through the date that the financial statements were filed.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial information included in this quarterly report should be read in conjunction with the Company’s audited financial statements and related notes thereto for the year ended December 31, 2017. Operating results for the nine month period ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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

Consolidation

The consolidated financial statements represent all companies of which Hudson directly or indirectly has majority ownership or otherwise controls. Significant intercompany accounts and transactions have been eliminated. The Company’s consolidated financial statements include the accounts of wholly-owned subsidiaries Hudson Holdings, Inc., Hudson Technologies Company and Aspen Refrigerants, Inc. The Company does not present a statement of comprehensive (loss) income as its comprehensive (loss) income is the same as its net (loss) income.

Fair Value of Financial Instruments

The carrying values of financial instruments including trade accounts receivable and accounts payable approximate fair value at September 30, 2018 and December 31, 2017, because of the relatively short maturity of these instruments. The carrying value of short and long-term debt approximates fair value, due to the variable rate nature of the debt, as of September 30, 2018 and December 31, 2017.

Credit Risk

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

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

For the nine month period ended September 30, 2018, there were no customers that accounted for 10% or more of the Company's revenues.

For the nine month period ended September 30, 2017, two customers each accounted for 10% or more of the Company's revenues and, in the aggregate these two customers accounted for approximately 37% of the Company's revenues. At September 30, 2017, there were $4.3 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.

Cash and Cash Equivalents

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

Inventories

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

Property, Plant and Equipment

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

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

Goodwill

The Company applies the purchase method of accounting for acquisitions, which among other things, requires the recognition of goodwill (which represents the excess of the purchase price of the acquisition over the fair value of the net assets acquired and identified intangible assets). Goodwill is subject to an annual impairment test (or more frequently, if events or circumstances indicate an impairment may be present) based on its estimated fair value. Other intangible assets that meet certain criteria are amortized over their estimated useful lives.

We evaluate the carrying value of our goodwill on an annual basis during the fourth quarter each year, and more frequently whenever events or circumstances make it more likely than not an impairment may have occurred. Beginning in 2017, the Company adopted, on a prospective basis, Accounting Standards Update (ASU) No. 2017-04, which simplified the method used to perform the annual, or interim, goodwill impairment testing. For the year ended December 31, 2017, the Company performed the annual goodwill impairment assessment using a qualitative approach to determine whether it is more likely than not that the fair value of goodwill is less than its carrying value. In performing the qualitative assessment, the Company identified and considered the significance of relevant key factors, events, and circumstances that affect the fair value of its goodwill. These factors include external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as the Company’s actual and planned financial performance. If the results of the qualitative assessment indicate that it is not more likely than not that the fair value of goodwill exceeds its carrying value, additional quantitative impairment testing is performed.

An impairment charge would be recognized when the carrying amount exceeds the estimated fair value of a reporting unit. These impairment evaluations use many assumptions and estimates in determining an impairment loss, including certain assumptions and estimates related to future earnings. If the Company does not achieve its earnings objectives, the assumptions and estimates underlying these impairment evaluations could be adversely affected, which could result in an asset impairment charge that would negatively impact operating results. The Company’s performance has been negatively impacted by the challenging pricing environment affecting the industry and the market during 2018 resulting in an increase in inventory reserves for certain gases. The Company determined as of September 30, 2018, that the year to date declines in revenue and operating income, along with the decrease in the Company’s stock price during 2018 represented a triggering event which may require a goodwill impairment test. Based on these indicators, the Company quantitatively evaluated its goodwill for impairment as of September 30, 2018 and determined that goodwill was not impaired.

Cylinder Deposit Liability

The cylinder deposit liability, which is included in Accrued expenses and other current liabilities on the Company's Consolidated Balance Sheets, represents the amount due to customers for the return of refillable cylinders. ARI charges its customers cylinder deposits upon the shipment of refrigerant gases that are contained in refillable cylinders. The amount charged to the customer by ARI approximates the cost of a new cylinder of the same size. Upon return of a cylinder, this liability is reduced. The cylinder deposit balance was $11.6 million and $9.8 million at September 30, 2018 and December 31, 2017, respectively.

Revenues and Cost of Sales

Beginning on January 1, 2018, the Company adopted, on a modified retrospective basis, Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers, which provides accounting guidance related to the recognition of revenue from contracts with customers. Based on the evaluation performed, the Company concluded that the adoption of this standard had no impact on its financial position, results of operations or cash flows and will not have a significant impact on its internal controls over financial reporting.

The Company’s products and services are primarily used in commercial air conditioning, industrial processing and refrigeration systems. Most of the Company’s revenues are realized from the sale of refrigerant and industrial gases and related products. The Company also generates revenue from refrigerant management services performed at a customer’s site and in-house. The Company conducts its business primarily within the US.

The Company applies the FASB’s guidance on revenue recognition, which requires the Company to recognize revenue in an amount that reflects the consideration the Company expects to be entitled in exchange for goods or services transferred to its customers. In most instances, the Company’s contract with a customer is the customer’s purchase order and the sales price to the customer is fixed. For certain customers, the Company may also enter into a sales agreement outlining a framework of terms and conditions applicable to future purchase orders received from that customer. Because the Company’s contracts with customers are typically for a single customer purchase order, the duration of the contract is usually less than one year. The Company’s performance obligations related to product sales are satisfied at a point in time, which may occur upon shipment of the product or receipt by the customer, depending on the terms of the arrangement. The Company’s performance obligations related to reclamation and RefrigerantSide® services are generally satisfied at a point in time when the service is performed. Accordingly, revenues are recorded upon the shipment of the product, or in certain instances upon receipt by the customer, or the completion of the service.

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 services. Due to the contract containing multiple performance obligations, the Company assessed the arrangement in accordance with ASC 606. The Company determined that the sale of refrigerants and the management services provided under the contract each have stand-alone value. Accordingly, the performance obligations related to the sale of refrigerants is satisfied at a point in time, mainly when the customer receives and obtains control of the product. The performance obligation related to management service revenue is satisfied over time and revenue is recognized on a straight-line basis over the term of the arrangement as the management services are provided; such management fees are included in the below table as Product and related sales and were approximately $1.8 million for each of the nine months ended September 30, 2018 and 2017.

Cost of sales is recorded based on the cost of products shipped or services performed and related direct operating costs of the Company’s facilities. In general, the Company performs shipping and handling services for its customers in connection with the delivery of refrigerant and other products. In accordance with ASC 606-10-25-18B, the Company has elected to account for such shipping and handling as activities to fulfill the promise to transfer the good. To the extent that the Company charges its customers shipping fees, such amounts are included as a component of revenue and the corresponding costs are included as a component of cost of sales.

The Company’s revenues are derived from Product and related sales and RefrigerantSide® Services revenues. The revenues for each of these lines are as follows:

	Three Months ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
(in thousands)				
Product and related sales	$ 39,787	$ 23,877	$ 137,336	$ 112,591
RefrigerantSide ® Services	758	829	3,468	3,175
Total	$ 40,545	$ 24,706	$ 140,804	$ 115,766

Income Taxes

The Company is taxed at statutory corporate income tax rates after adjusting income reported for financial statement purposes for certain items. Current income tax expense (benefit) reflects the tax results of revenues and expenses currently taxable or deductible. The Company utilizes the asset and liability method of accounting for deferred income taxes, which provides for the recognition of deferred tax assets or liabilities, based on enacted tax rates and laws, for the differences between the financial and income tax reporting bases of assets and liabilities.

The tax benefit associated with the Company's net operating loss carry forwards ("NOLs") is recognized to the extent that the Company expects to realize future taxable income. As a result of a prior year "change in control", as defined by the Internal Revenue Service, the Company's ability to utilize its existing NOLs is subject to certain annual limitations. To the extent that the Company utilizes its NOLs, it will not pay tax on such income. However, to the extent that the Company's net income, if any, exceeds the annual NOL limitation, it will pay income taxes based on the then existing statutory rates. In addition, certain states either do not allow or limit NOLs and as such the Company will be liable for certain state income taxes. As of September 30, 2018, the Company had NOLs of approximately $5.4 million expiring through 2021, $2.8 million of which are subject to annual limitations of approximately $1.3 million. As of September 30, 2018, the company had state tax NOLs of approximately $3.6 million expiring in various years. We review the likelihood that we will realize the benefit of our deferred tax assets, and therefore the need for valuation allowances, on an annual basis in the fourth quarter of the year, and more frequently if events indicate that a review is required. In determining the requirement for a valuation allowance, the historical and projected financial results are considered, along with all other available positive and negative evidence.

Concluding that a valuation allowance is not required is difficult when there is significant negative evidence that is objective and verifiable, such as cumulative losses in recent years. We utilize a rolling twelve quarters of pre-tax income or loss adjusted for significant permanent book to tax differences, as well as non-recurring items, as a measure of our cumulative results in recent years. Based on the operating loss experienced as of September 30, 2018, our analysis indicates that we have cumulative three year historical losses on this basis, which represents significant negative evidence that is objective and verifiable and, therefore, difficult to overcome. Based on our assessment as of September 30, 2018, we concluded that due to the uncertainty that the deferred tax assets will not be fully realized in the future, we have recorded a valuation allowance of approximately $10.3 million during the quarter ended September 30, 2018.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (“2017 Tax Act”), which lowered the federal statutory income tax rate from, generally, 35% to 21% for tax years beginning after December 31, 2017. Furthermore, the 2017 Tax Act contains a number of changes related to NOLs including the repeal of the two-year carryback period for NOLs arising in taxable years ending after December 31, 2017. The 2017 Tax Act permits NOLs to be carried forward for an unlimited period as opposed to 20 years under prior law and, with respect to NOLs arising in taxable years beginning after December 31, 2017, the 2017 Tax Act imposes an annual limit of 80% on the amount of taxable income that such NOLs can offset (effectively resulting in a minimum tax of 4.2%) but no such limitation is imposed on the use of NOLs that arose in earlier taxable years. In addition, the 2017 Tax Act limits the annual deductibility of net business interest by imposing a 30% cap computed based on adjusted taxable income, effective for taxable years beginning after December 31, 2017. There is no grandfathering provided for existing debt and no transition period. The 2017 Tax Act treats disallowed net interest expense as a separate tax attribute, rather than merely an increase to that year’s NOLs. Disallowed net business interest is carried over indefinitely, similar to NOLs generated in taxable years beginning after December 31, 2017. As a result of the enactment of the 2017 Tax Act, the Company recorded a benefit of approximately $1.4 million during the fourth quarter of 2017 to reflect the net impact of lower future federal income tax rates on the NOLs and the other cumulative differences in financial reporting and tax bases of assets and liabilities, which were, primarily, fixed assets and accumulated depreciation.

As a result of an Internal Revenue Service audit, the 2013 and prior federal tax years have been closed. The Company operates in many states throughout the United States and, as of September 30, 2018, the various states’ statutes of limitations remain open for tax years subsequent to 2010. The Company recognizes interest and penalties, if any, relating to income taxes as a component of the provision for income taxes.

The Company evaluates uncertain tax positions, if any, by determining if it is more likely than not to be sustained upon examination by the taxing authorities. As of September 30, 2018, and December 31, 2017, the Company had no uncertain tax positions.

Income per Common and Equivalent Shares

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

	Three Months ended September 30,		Nine Months ended September 30,	
	2018	2017	2018	2017
Net (loss) income	$(13,880)	$2,104	$(47,552)	$16,362

Weighted average number of shares - basic	42,530,476	41,869,528	42,445,926	41,648,439
Shares underlying options	-	1,594,454	-	1,524,988
Weighted average number of shares outstanding – diluted	42,530,476	43,463,982	42,445,926	43,173,427

During the three month periods ended September 30, 2018 and 2017, certain options aggregating 852,552 shares and none, respectively, have been excluded from the calculation of diluted shares, due to the fact that their effect would be anti-dilutive.

During the nine month periods ended September 30, 2018 and 2017, certain options aggregating 852,552 shares and none, respectively, have been excluded from the calculation of diluted shares, due to the fact that their effect would be anti-dilutive.

Estimates and Risks

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires the use of estimates and assumptions that affect the amounts reported in these financial statements and footnotes. The Company considers these accounting estimates to be critical in the preparation of the accompanying consolidated financial statements. The Company uses information available at the time the estimates are made. However, these estimates could change materially if different information or assumptions were used. Additionally, these estimates may not ultimately reflect the actual amounts of the final transactions that occur.

The Company utilizes both internal and external sources to evaluate potential current and future liabilities for various commitments and contingencies. In the event that the assumptions or conditions change in the future, the estimates could differ from the original estimates.

Several of the Company’s accounting policies involve significant judgments, uncertainties and estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. To the extent that actual results differ from management’s judgments and estimates, there could be a material adverse effect on the Company. On a continuous basis, the Company evaluates its estimates, including, but not limited to, those estimates related to its allowance for doubtful accounts, inventory reserves, valuation allowance for deferred tax assets, and commitments and contingencies. With respect to accounts receivable, the Company estimates the necessary allowance for doubtful accounts based on both historical and anticipated trends of payment history and the ability of the customer to fulfill its obligations. For inventory, the Company evaluates both current and anticipated sales prices of its products to determine if a write down of inventory to net realizable value is necessary. In determining the Company’s valuation allowance for its deferred tax assets, the Company assesses its ability to generate taxable income in the future.

The Company participates in an industry that is highly regulated, and changes in the regulations affecting its business could affect its operating results. Currently the Company purchases virgin hydrochlorofluorocarbon (“HCFC”) and hydrofluorocarbon (“HFC”) refrigerants and reclaimable, primarily HCFC, HFC and chlorofluorocarbon (“CFC”), refrigerants from suppliers and its customers. Effective January 1, 1996, the Clean Air Act (the “Act”) prohibited the production of virgin CFC refrigerants and limited the production of virgin HCFC refrigerants. Effective January 2004, the Act further limited the production of virgin HCFC refrigerants and federal regulations were enacted which established production and consumption allowances for HCFC refrigerants which imposed limitations on the importation of certain virgin HCFC refrigerants. Under the Act, production of certain virgin HCFC refrigerants is scheduled to be phased out during the period 2010 through 2020, and production of all virgin HCFC refrigerants is scheduled to be phased out by 2030. In October 2014, the EPA published a final rule 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 established a linear draw down for the production or importation of virgin HCFC-22 that started at approximately 22 million pounds in 2015 and was reduced by approximately 4.5 million pounds each year to end at zero in 2020.

To the extent that the Company is unable to source sufficient quantities of refrigerants or is unable to obtain refrigerants on commercially reasonable terms or experiences a decline in demand and/or price for refrigerants sold by the Company, the Company could realize reductions in revenue from refrigerant sales, which could have a material adverse effect on its operating results and its financial position.

The Company is subject to various legal proceedings. The Company assesses the merit and potential liability associated with each of these proceedings. In addition, the Company estimates potential liability, if any, related to these matters. To the extent that these estimates are not accurate, or circumstances change in the future, the Company could realize liabilities, which could have a material adverse effect on its operating results and its financial position.

Impairment of Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell.

Recent Accounting Pronouncements

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (ASU 2017-04) which simplifies the accounting for goodwill impairment by eliminating Step 2 of the current goodwill impairment test that requires a hypothetical purchase price allocation to measure goodwill impairment. Under the new standard, a company will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. ASU 2017-04 does not change the guidance on completing Step 1 of the goodwill impairment test and still allows a company to perform the optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. The standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted for any impairment test performed on testing dates after January 1, 2017. The Company adopted this standard on January 1, 2017 and has applied its guidance in its impairment assessments.

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.” This guidance involves several aspects of accounting for employee share-based payments including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The Company adopted this ASU on a prospective basis on January 1, 2017. Excess tax benefits and deficiencies are recognized in the consolidated statement of earnings rather than capital in excess of par value of stock. Excess tax benefits within the consolidated statement of cash flows are presented as an operating activity. The impact of the adoption on the Company’s income tax expense or benefit and related cash flows during and after the period of adoption are dependent in part upon grants and

vesting of stock-based compensation awards and other factors that are not fully controllable or predicable by the Company, such as the future market price of the Company's common stock, the timing of employee exercises of vested stock options, and the future achievement of performance criteria that affect performance-based awards. The Company adopted this ASU at the beginning of 2017 and during 2017, the impact of this standard reduced the Company's income tax expense and increased net income by approximately $2.4 million.

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.

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.

Note 2- Fair Value

ASC Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based upon observable inputs used in the valuation techniques, the Company is required to provide information according to the fair value hierarchy.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values into three broad levels as follows:

Level 1: Valuations for assets and liabilities traded in active markets from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities include certain unobservable inputs in the assumptions and projections used in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Note 3- Inventories

Inventories, net of reserves, consist of the following:

	September 30, 2018	December 31, 2017
(in thousands)		
Refrigerants and cylinders	$ 117,626	$ 174,262
Less: reserves	(11,118)	(1,777)
Total	$ 106,508	$ 172,485

During the second quarter of 2018, the Company recorded a $34.7 million lower of cost or net realizable value adjustment to its inventory. The $34.7 million adjustment included a $17.6 million write-down of a previously recorded step-up in inventory basis associated with the acquisition of ARI and an $17.1 million write-down for a lower of cost or net realizable value adjustment. The Company's performance has been negatively impacted by the challenging pricing environment affecting the industry and the market during 2018, leading to an increase in inventory reserves for certain gases.

Note 4 - Property, plant and equipment

Elements of property, plant and equipment are as follows:

(in thousands)	September 30, 2018	December 31, 2017	Estimated Lives
Property, plant and equipment			
- Land	$ 1,255	$ 1,255	
- Land improvements	319	319	6-10 years
- Buildings	1,446	1,446	25-39 years
- Building improvements	3,045	3,045	25-39 years
- Cylinders	13,381	13,390	15-30 years
- Equipment	23,866	23,524	3-10 years
- Equipment under capital lease	315	315	5-7 years
- Vehicles	1,580	1,612	3-5 years
- Lab and computer equipment, software	3,090	3,056	2-8 years
- Furniture & fixtures	684	656	5-10 years
- Leasehold improvements	864	711	3-5 years
- Equipment under construction	570	385	
Subtotal	50,415	49,714	
Accumulated depreciation	22,085	19,253	
Total	$ 28,330	$ 30,461	

Depreciation expense for the nine months ended September 30, 2018 and 2017 was $3.1 million and $1.3 million, respectively.

Note 5 – Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business combinations accounted for under the purchase method of accounting. For the year ended December 31, 2017, the Company performed the annual goodwill impairment assessment using a qualitative approach to determine whether it was more likely than not that the fair value of goodwill was less than its carrying value. In performing the qualitative assessment, the Company identifies and considers the significance of relevant key factors, events, and circumstances that affect the fair value of its goodwill. These factors include external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as the Company's actual and planned financial performance. If the results of the qualitative assessment indicate that it is not more likely than not that the fair value of goodwill exceeds its carrying value, additional quantitative impairment testing is performed.

Based on the results of the impairment assessments of goodwill and other intangible assets performed in 2017, the Company concluded that it was more likely than not that the fair value of its goodwill significantly exceeded the carrying value and that there were no impairment indicators related to intangible assets. The Company determined as of September 30, 2018, that the year to date declines in revenue and operating income, along with the decrease in the Company's stock price during 2018 represented a triggering event which may require a goodwill impairment test. Based on these indicators, the Company quantitatively evaluated its goodwill for impairment as of September 30, 2018 and determined that goodwill was not impaired.

At September 30, 2018 the Company had $47.8 million of goodwill, of which $46.9 million is attributable to the acquisition of ARI on October 10, 2017.

The Company's other intangible assets consist of the following:

		September 30, 2018			December 31, 2017		
(in thousands)	Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets with determinable lives							
Patents	5	$386	$ 379	$7	$386	$ 374	$12

Covenant Not to Compete	6 - 10	1,270	591	679	1,270	475	795
Customer Relationships	10 - 12	31,660	3,284	28,376	31,660	1,288	30,372
Above Market Leases	13	567	43	524	567	10	557
Trade Name	2	30	30	-	30	30	-
Licenses	10	1,000	392	608	1,000	317	683
Totals identifiable intangible assets		$34,913	$ 4,719	$30,194	$34,913	$ 2,494	$32,419

Amortization expense for the nine months ended September 30, 2018 and 2017 was $2.2 million and $0.4 million, respectively. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. No impairment charges were recognized for the period ended September 30, 2018 and for the year ended December 31, 2017.

Note 6 - Share-based compensation

Share-based compensation represents the cost related to share-based awards, typically stock options or stock grants, granted to employees, non-employees, officers and directors. Share-based compensation is measured at the grant date, based on the estimated aggregate fair value of the award on the grant date, and such amount is charged to compensation expense on a straight-line basis over the requisite service period. For the nine month periods ended September 30, 2018 and 2017, the share-based compensation expense of $0.6 million and de minimis, respectively, are reflected in general and administrative expenses in the Consolidated Statements of Operations.

Share-based awards have historically been made as stock options, and recently also as stock grants, issued pursuant to the terms of the Company's stock option and stock incentive plans, (collectively, the "Plans"), described below. The Plans may be administered by the Board of Directors or the Compensation Committee of the Board or by another committee appointed by the Board from among its members as provided in the Plans. Presently, the Plans are administered by the Company's Compensation Committee of the Board of Directors. As of September 30, 2018, the Plans authorized the issuance of 7,000,000 shares of the Company's common stock and, as of September 30, 2018 there were 6,709,854 shares of the Company's common stock available for issuance for future stock option grants or other stock based awards.

Stock option awards, which allow the recipient to purchase shares of the Company's common stock at a fixed price, are typically granted at an exercise price equal to the Company's stock price at the date of grant. Typically, the Company's stock option awards have vested from immediately to two years from the grant date and have had a contractual term ranging from three to ten years.

Effective September 10, 2004, the Company adopted its 2004 Stock Incentive Plan ("2004 Plan") pursuant to which 2,500,000 shares of common stock were reserved for issuance (i) upon the exercise of options, designated as either incentive stock options (ISOs) under the Internal Revenue Code of 1986, as amended (the "Code") or nonqualified options, or (ii) as stock, deferred stock or other stock-based awards. ISOs could be granted under the 2004 Plan to employees and officers of the Company. Non-qualified options, stock, deferred stock or other stock-based awards could be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights could also be issued in tandem with stock options. Effective September 10, 2014, the Company's ability to grant options or other awards under the 2004 Plan expired.

Effective August 27, 2008, the Company adopted its 2008 Stock Incentive Plan ("2008 Plan") pursuant to which 3,000,000 shares of common stock were reserved for issuance (i) upon the exercise of options, designated as either ISOs under the Code or nonqualified options, or (ii) as stock, deferred stock or other stock-based awards. ISOs could be granted under the 2008 Plan to employees and officers of the Company. Non-qualified options, stock, deferred stock or other stock-based awards could be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights could also be issued in tandem with stock options. Effective August 27, 2018, the Company's ability to grant options or other awards under the 2008 Plan expired.

Effective September 17, 2014, the Company adopted its 2014 Stock Incentive Plan ("2014 Plan") pursuant to which 3,000,000 shares of common stock were reserved for issuance (i) upon the exercise of options, designated as either ISOs under the Code or nonqualified options, or (ii) as stock, deferred stock or other stock-based awards. ISOs may be granted under the 2014 Plan to employees and officers of the Company. Non-qualified options, stock, deferred stock or other stock-based awards may be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights may also be issued in tandem with stock options. Unless the 2014 Plan is sooner terminated, the ability to grant options or other awards under the 2014 Plan will expire on September 17, 2024.

ISOs granted under the 2014 Plan may not be granted at a price less than the fair market value of the common stock on the date of grant (or 110% of fair market value in the case of persons holding 10% or more of the voting stock of the Company). Nonqualified options granted under the 2014 Plan may not be granted at a price less than the fair market value of the common stock. Options granted under the 2014 Plan expire not more than ten years from the date of grant (five years in the case of ISOs granted to persons holding 10% or more of the voting stock of the Company). Certain options granted may contain a barrier price whereby the options are cancelled once the stock price declines below a predetermined barrier price for five consecutive trading days.

Effective June 7, 2018, the Company adopted its 2018 Stock Incentive Plan ("2018 Plan") pursuant to which 4,000,000 shares of common stock were reserved for issuance (i) upon the exercise of options, designated as either ISOs under the Code or nonqualified options, or (ii) as stock, deferred stock or other stock-based awards. ISOs may be granted under the 2018 Plan to employees and officers of the Company. Non-qualified options, stock, deferred stock or other stock-based awards may be granted to consultants, directors (whether or not they are employees), employees or officers of the Company. Stock appreciation rights may also be issued in tandem with stock options. Unless the 2018 Plan is sooner terminated, the ability to grant options or other awards under the 2018 Plan will expire on June 7, 2028.

ISOs granted under the 2018 Plan may not be granted at a price less than the fair market value of the common stock on the date of grant (or 110% of fair market value in the case of persons holding 10% or more of the voting stock of the Company). Nonqualified options granted under the 2018 Plan may not be granted at a price less than the fair market value of the common stock. Options granted under the 2018 Plan expire not more than ten years from the date of grant (five years in the case of ISOs granted to persons holding 10% or more of the voting stock of the Company). Certain options granted may contain a barrier price whereby the options are cancelled once the stock price declines below a predetermined barrier price for five consecutive trading days.

All stock options have been granted to employees and non-employees at exercise prices equal to or in excess of the market value on the date of the grant.

The Company determines the fair value of share-based awards at the grant date by using the Black-Scholes option-pricing model, and is incorporating the simplified method to compute expected lives of share-based awards. There were 307,355 and 0 stock options granted during the nine month periods ended September 30, 2018 and 2017.

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

Stock Option Totals	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2016	3,214,398	$ 2.68
-Exercised	(1,545,161)	$ 2.27
-Granted	1,400,203	$ 5.72
Outstanding at December 31, 2017	3,069,440	$ 4.28
-Exercised	(5,000)	$ 3.43
-Granted	307,355	$ 2.37
-Cancelled	(2,519,243)	$ 4.93

Outstanding at September 30, 2018	852,552	$ 1.66

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The following is the weighted average contractual life in years and the weighted average exercise price at September 30, 2018 of:

	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Options outstanding and vested	727,552	2.1 years	$ 1.58

The intrinsic values of options outstanding at September 30, 2018 and December 31, 2017 are $0 and $5.5 million, respectively.

The intrinsic value of options unvested at September 30, 2018 and December 31, 2017 are $0 and $0, respectively.

The intrinsic value of options exercised during the nine month ended September 30, 2018 and 2017 were $0 and $5.2 million, respectively.

Note 7 - Short-term and long-term debt

Elements of short-term and long-term debt are as follows:

	September 30, 2018	December 31, 2017
(in thousands)		
Short-term & long-term debt		
Short-term debt:		
- Revolving credit line and other debt	$ 29,065	$ 65,152
- Long-term debt: current	1,050	1,050
Subtotal	30,115	66,202
Long-term debt:		
- Term Loan Facility	103,163	103,950
- Vehicle and equipment loans	8	39
- Capital lease obligations	5	20

- Less: deferred financing costs on term loan	(3,501)	(2,851)
Subtotal	99,675	101,158
Total short-term & long-term debt [1]	$ 129,790	$ 167,360

[1] Long-term debt is net of deferred financing costs.

Bank Credit Line

On June 22, 2012, Hudson Technologies Company ("HTC"), an indirect subsidiary of the Company, entered into a Revolving Credit, Term Loan and Security Agreement (the "Original PNC Facility") with PNC Bank, National Association, as agent ("Agent" or "PNC"), and such other lenders as may thereafter become a party to the Original PNC Facility. Between June 2012 and April 2016, the Company entered into six amendments to the Original PNC Facility. Under the terms of the Original PNC Facility, as amended, the Maximum Loan Amount (as defined in the Original PNC Facility) was $40,000,000 to $50,000,000, and the Maximum Revolving Advance Amount (as defined in the Original PNC Facility) was $46,000,000. In addition, there was a $130,000 outstanding letter of credit under the Original PNC Facility at March 31, 2017. The Termination Date of the Original PNC Facility (as defined in the Original PNC Facility) was June 30, 2020.

On October 10, 2017, HTC, Holdings and ARI, as borrowers (collectively, the "Borrowers"), and the Company as a guarantor, became obligated under an Amended and Restated Revolving Credit and Security Agreement (the "PNC Facility") with PNC Bank, National Association, as administrative agent, collateral agent and lender ("Agent" or "PNC"), PNC Capital Markets LLC as lead arranger and sole bookrunner, and such other lenders as may thereafter become a party to the PNC Facility. The PNC Facility amended and restated the Original PNC Facility.

Under the terms of the PNC Facility, the Borrowers may borrow, from time to time, up to $150 million at any time consisting of revolving loans in a maximum amount up to the lesser of $150 million and a borrowing base that is calculated based on the outstanding amount of the Borrowers' eligible receivables and eligible inventory, as described in the PNC Facility. The PNC Facility also contains a sublimit of $15 million for swing line loans and $5 million for letters of credit.

Amounts borrowed under the PNC Facility were used by the Borrowers to consummate the acquisition of ARI and for working capital needs, certain permitted future acquisitions, and to reimburse drawings under letters of credit. At September 30, 2018, total borrowings under the PNC Facility were $29.0 million, and total availability was approximately $43.5 million. In addition, there was a $130,000 outstanding letter of credit at September 30, 2018.

Interest on loans under the PNC Facility is payable in arrears on the first day of each month with respect to loans bearing interest at the domestic rate (as set forth in the PNC Facility) and at the end of each interest period with respect to loans bearing interest at the Eurodollar rate (as set forth in the PNC Facility) or, for Eurodollar rate loans with an interest period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar rate loan or (b) the end of the interest period. Interest charges with respect to loans are computed on the actual principal amount of loans outstanding during the month at a rate per annum equal to (A) with respect to domestic rate loans, the sum of (i) a rate per annum equal to the higher of (1) the base commercial lending rate of PNC, (2) the federal funds open rate plus 0.5% and (3) the daily LIBOR plus 1.0%, plus (ii) between 0.50% and 1.00% depending on average quarterly undrawn availability and (B) with respect to Eurodollar rate loans, the sum of the Eurodollar rate plus between 1.50% and 2.00% depending on average quarterly undrawn availability.

Borrowers and the Company granted to the Agent, for the benefit of the lenders, a security interest in substantially all of their respective assets, including receivables, equipment, general intangibles (including intellectual property), inventory, subsidiary stock, real property, and certain other assets.

The PNC Facility contains a financial covenant requiring the Company to maintain at all times a Fixed Charge Coverage Ratio (FCCR) of not less than 1.00 to 1.00, as of the end of each trailing period of four consecutive quarters. The FCCR (as defined in the PNC Facility) is the ratio of (a) EBITDA for such period, minus unfinanced capital expenditures made during such period, minus the aggregate amount of cash taxes paid during such period, to (b) the aggregate amount of all scheduled payments of principal (excluding principal payments relating to outstanding revolving loans under the PNC Facility) and all cash payments of interest, plus cash dividends and distributions made during such period, plus payments in respect of capital lease obligations made during such period. For the fiscal quarters ended on March 31, 2017 and June 30, 2017, EBITDA is deemed to be $21.9 million and $26.1 million, respectively, and for the fiscal quarters ended September 30, 2017 and December 31, 2017 includes EBITDA of ARI on a pro forma basis. As of September 30, 2018 and December 31, 2017, the FCCR was approximately 1.74 to 1 and 6.47 to 1, respectively.

The PNC Facility also contains customary non-financial covenants relating to the Company and the Borrowers, including limitations on Borrowers' 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 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 October 10, 2022, unless the commitments are terminated and the outstanding principal amount of the loans are accelerated sooner following an event of default.

In connection with the closing of the PNC Facility, the Company also entered into an Amended and Restated Guaranty and Suretyship Agreement, dated as of October 10, 2017 (the “Revolver Guarantee”), pursuant to which the Company affirmed its unconditional guarantee of the payment and performance of all obligations owing by Borrowers to PNC, as Agent for the benefit of the revolving lenders.

Term Loan Facility

On October 10, 2017, HTC, Holdings, and ARI, as borrowers, and the Company, as guarantor, became obligated under a Term Loan Credit and Security Agreement (the “Term Loan Facility”) with U.S. Bank National Association, as administrative agent and collateral agent (“Term Loan Agent”) and funds advised by FS Investments and such other lenders as may thereafter become a party to the Term Loan Facility (the “Term Loan Lenders”).

Under the terms of the Term Loan Facility, the Borrowers immediately borrowed $105 million pursuant to a term loan (the “Initial Term Loan”) and could borrow up to an additional $25 million for a period of eighteen months after closing to fund additional permitted acquisitions (the “Delayed Draw Commitment”, and together with the Initial Term Loan, the “Term Loans”). The Delayed Draw Commitment was terminated effective June 29, 2018 (the “First Amendment”).

The Term Loans mature on October 10, 2023. Principal payments on the Term Loans are required on a quarterly basis, commencing with the quarter ended March 31, 2018, in the amount of 1% per annum of the original principal of the outstanding Term Loans. Commencing with the fiscal year ending December 31, 2018, the Term Loan Facility also requires annual principal payments of up to 50% of Excess Cash Flow (as defined in the Term Loan Facility) if the Company’s Total Leverage Ratio (as defined in the Term Loan Facility) for the applicable year is greater than 2.75 to 1.00. The Term Loan Facility also requires mandatory prepayments of the Term Loans in the event of certain asset dispositions, debt issuances, and casualty and condemnation events. The Term Loans may be prepaid at the option of the Borrowers at par in an amount up to $30 million. Additional prepayments are permitted after the first anniversary of the closing date and were originally subject to a prepayment premium of 3% in year two, 1% in year three and zero in year four and thereafter.

Interest on the Term Loans is generally payable on the earlier of the last day of the interest period applicable to such Eurodollar rate loan and the last day of the Term Loan Facility, as applicable. Interest was originally payable at the rate per annum of the Eurodollar Rate (as defined in the Term Loan Facility) plus 7.25%. The Borrowers have the option of paying 3.00% interest per annum in kind by adding such amount to the principal of the Term Loans during no more than five fiscal quarters during the term of the Term Loan Facility.

Borrowers and the Company granted to the Term Loan Agent, for the benefit of the Term Loan Lenders, a security interest in substantially all of their respective assets, including receivables, equipment, general intangibles (including intellectual property), inventory, subsidiary stock, real property, and certain other assets.

The Term Loan Facility originally contained a financial covenant requiring the Company to maintain a Total Leverage Ratio (TLR) of not greater than 4.75 to 1.00, tested as of the last day of the fiscal quarter. The Term Loan Facility was amended on August 14, 2018, including a waiver of the TLR covenant at June 30, 2018, as described below. The TLR (as defined in the Term Loan Facility) is the ratio of (a) funded debt as of such day to (b) EBITDA for the four consecutive fiscal quarters ending on the last day of such fiscal quarter. Funded debt (as defined in the Term Loan Facility) includes amounts borrowed under the PNC Facility and the Term Loan Facility as well as capitalized lease obligations and other indebtedness for borrowed money maturing more than one year from the date of creation thereof. For the fiscal quarters ended on March 31, 2017 and June 30, 2017, EBITDA is deemed to be $21.9 million and $26.1 million, respectively, and for the fiscal quarters ended September 30, 2017 and December 31, 2017 includes EBITDA of ARI on a pro forma basis. As of September 30, 2018 and December 31, 2017, the TLR was approximately 12.44 to 1 and 3.03 to 1, respectively.

The Term Loan Facility also contains customary non-financial covenants relating to the Company and the Borrowers, including limitations on their 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.

In connection with the closing of the Term Loan Facility, the Company also entered into a Guaranty and Suretyship Agreement, dated as of October 10, 2017 (the "Term Loan Guarantee"), pursuant to which the Company affirmed its unconditional guarantee of the payment and performance of all obligations owing by Borrowers to Term Loan Agent, as agent for the benefit of the Term Loan Lenders.

The Term Loan Agent and the Agent have entered into an intercreditor agreement governing the relative priority of their security interests granted by the Borrowers and the Guarantor in the collateral, providing that the Agent shall have a first priority security interest in the accounts receivable, inventory, deposit accounts and certain other assets (the "Revolving Credit Priority Collateral") and the Term Loan Agent shall have a first priority security interest in the equipment, real property, capital stock of subsidiaries and certain other assets (the "Term Loan Priority Collateral").

On August 14, 2018, HTC, Holdings and ARI, as borrowers, and the Company as a guarantor, entered into a Waiver and Second Amendment to Term Loan Credit and Security Agreement (the "Second Amendment") with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder. The Second Amendment superseded interim waivers and amended the Term Loan Facility, to waive compliance with the existing TLR covenant at June 30, 2018.

In addition, the Second Amendment also: (i) increases the interest rate by 300 basis points effective July 1, 2018; (ii) waives the existing prepayment premium in the Term Loan Facility in the event the term loan is repaid in full prior to March 31, 2020; (iii) adds an exit fee equal to three percent (3.00%) of the outstanding principal balance of the term loans on the date of the Second Amendment (provided, that payment of the exit fee is waived in the event that the term loan is repaid in full prior to January 1, 2020, and provided further that the exit fee is reduced to one-and-one-half percent (1.50%) in the event that the term loan is repaid in full on or after January 1, 2020 but prior to March 31, 2020); (iv) restricts acquisitions and other equity investments prior to September 30, 2018; and (v) required payment of a one-time waiver fee equal to one percent (1.00%) of the outstanding term loans.

The Company evaluated the First and Second Amendments in accordance with the provisions of ASC 470 to determine if the Amendments were a modification or an extinguishment of debt and concluded that both amendments were a modification of the original term loan agreement for accounting purposes. As a result, the Company capitalized an additional $1.0 million of deferred financing costs in connection with the Second Amendment, which are being amortized over the remaining term.

The Company was in compliance with all covenants, under the PNC Facility and the Term Loan Facility, as amended (See Note 9 - Subsequent Events), as of September 30, 2018. 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. Therefore, we cannot make any assurance that we will continue to be in compliance during future periods.

Vehicle and Equipment Loans

The Company has entered into various vehicle and equipment loans. These loans are payable in 60 monthly payments through March 2020 and bear interest ranging from 0.0% to 6.7%.

Capital Lease Obligations

The Company rents certain equipment with a net book value of approximately $0.1 million at September 30, 2018 under leases which have been classified as capital leases. Scheduled future minimum lease payments under capital leases, net of interest, are as follows:

Twelve Month Period Ending September 30,	Amount
(in thousands)	
-2019	$ 67
-2020	14
-2021	-
-2022	-
-2023	-
Subtotal	81
Less interest expense	(3)
Total	$ 78

Scheduled maturities of the Company’s long-term debt and capital lease obligations are as follows:

Twelve Month Period Ending September 30, (in thousands)	Amount
-2019	$1,903
-2020	2,113
-2021	2,100
-2022	2,100
-2023	2,100
Thereafter	93,975
Total	$104,291

Note 8 - Acquisitions

ARI Acquisition

On October 10, 2017, the Company completed the Acquisition of ARI.

At closing, the Company paid net cash consideration of approximately $209 million, which included preliminary post-closing adjustments relating to: (i) changes in the net working capital of ARI as of the closing relative to a net working capital target, (ii) the actual amount of specified types of R-22 refrigerant inventory on hand at closing relative to a target amount thereof, and (iii) other consideration pursuant to the Stock Purchase Agreement.

The fair values of the assets that we acquired and the liabilities that we assumed are now final. Any future changes to the acquired assets and liabilities will be recorded in the Company’s Consolidated Statement of Operations. The Company is currently engaged with Airgas with respect to finalizing the post-closing adjustment, as defined in the Stock Purchase Agreement.

The following table summarizes the Company’s preliminary estimates of the fair values of the assets acquired and the liabilities assumed on the date the Company completed the Acquisition of ARI, as previously reported as of year-end 2017 and September 30, 2018:

	Amortization life (in months)	As previously reported	**Adjustments** (1)	As Adjusted (in thousands)
Accounts receivable		$ 14,668	$	$ 14,668
Other assets		734		734
Inventories		103,876	1,661	105,537
Property and equipment		24,179		24,179
Customer relationships	144	29,660		29,660
Above-market leases	153	567		567
Goodwill		48,609	(1,661)	46,948
Total assets acquired		$ 222,293	$ -	$ 222,293
Accounts payable and accrued expenses		$ 3,210	$	$ 3,210
Other current liabilities		10,114		10,114
Total liabilities assumed		$ 13,324	$ -	$ 13,324
Total purchase price		$ 208,969	$ -	$ 208,969

(1) The Company obtained further information regarding the fair value of acquired inventory based on information that existed as of the acquisition date.

The fair values of the acquired intangibles were determined using discounted cash flow models that include a discount factor based on an estimated risk-adjusted weighted average cost of capital. The customer relationships were valued using the multi-period excess-earnings method, a form of the income approach. The above-market leases were valued using the differential cash flow method of the income approach.

The acquisition resulted in the recognition of $46.9 million of goodwill, which should be deductible for tax purposes. Goodwill largely consists of expected growth in revenue from new customer acquisitions over time.

The cash consideration paid by the Company at closing was financed with available cash balances, plus $80 million of borrowings under the PNC Facility and a new term loan of $105 million from the Term Loan Facility.

Note 9- Subsequent Events

On November 30, 2018, Hudson Technologies Company (“HTC”), an indirect subsidiary of Hudson Technologies, Inc. (the “Company”), and HTC’s affiliates Hudson Holdings, Inc. and Aspen Refrigerants, Inc. (formerly known as Airgas-Refrigerants, Inc.), as borrowers (collectively, the “Borrowers”), and the Company as a guarantor, entered into a Waiver and Third Amendment to Term Loan Credit and Security Agreement (the “Third Amendment”) with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder.

The Third Amendment superseded interim waivers and amended the Term Loan Credit and Security Agreement dated October 10, 2017 (as previously amended, the “Term Loan Facility”) to reset the maximum Total Leverage Ratio covenant contained in the Term Loan Facility at the indicated dates as follows: (i) June 30, 2018 - 10.15:1.00; (ii) September 30, 2018 - 12.45:1.00; (iii) December 31, 2018 – 12.75:1.00; (iv) March 31, 2019 – 12.95:1.00; (v) June 30, 2019 – 8.25:1.00; September 30, 2019 – 6.40:1.00; (vi) December 31, 2019 – 5:70:1.00; and (vii) March 31, 2020 and each fiscal quarter thereafter – 4:75:1.00.

The Third Amendment increases the scheduled quarterly principal repayments to $525,000 effective December 31, 2018. In addition the Third Amendment requires a further repayment of principal on or before November 14, 2019 in an amount equal to (x) 100% of Excess Cash Flow (as defined in the Term Loan Facility) for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability (as defined in the Term Loan Facility) of at least $35,000,000, (y) 50% of Excess Cash Flow for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability of at least $15,000,000 but less than $35,000,000, and (z) 0% of Excess Cash Flow for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability less than $15,000,000, with any such payment subject to reduction by the amount of any voluntary prepayments made following the date of the Third Amendment. Any voluntary prepayments will not be subject to the prepayment premium or make-whole provisions of the Term Loan Facility. The Third Amendment also adds a minimum liquidity requirement (consisting of cash plus undrawn availability on the Borrowers’ revolving loan facility) of $28 million, measured monthly.

The Third Amendment also amended the exit fee payable to the term loan lenders to five percent (5.00%) of the outstanding principal balance of the term loans on November 30, 2018 (the “Exit Fee”), which Exit Fee shall be payable in full in cash upon the earlier to occur of (x) repayment in full of the term loans, or (y) any acceleration of the term loans. The Exit Fee will be reduced by one-tenth of one percent (0.10%) for every $1,000,000 in voluntary prepayments made prior to January 1, 2020; provided, that, in no event shall the Exit Fee be reduced below three percent (3.00%) as a result of any such prepayments, (ii) payment of the Exit Fee shall be waived in the event that repayment in full of the term loans occurs prior to January 1, 2020, and (iii) the Exit Fee shall be reduced by an amount equal to fifty percent (50%) of the amount that would otherwise be payable in the event that repayment in full occurs on or after January 1, 2020 but prior to March 31, 2020.

On November 30, 2018, Hudson Technologies Company (“HTC”), an indirect subsidiary of Hudson Technologies, Inc. (the “Company”), and HTC’s affiliates Hudson Holdings, Inc. and Aspen Refrigerants, Inc. (formerly known as Airgas-Refrigerants, Inc.), as borrowers (collectively, the “Borrowers”), and the Company as a guarantor, entered into a Second Amendment to Amended and Restated Revolving Credit and Security Agreement, Consent and Waiver (the “Second Revolver Amendment”) with PNC Bank, National Association, as administrative agent, collateral agent and lender (“Agent” or “PNC”) and the lenders thereunder.

The Second Revolver Amendment amends the Amended and Restated Revolving Credit and Security Agreement dated October 10, 2017 (as amended to date, the “PNC Facility”), to replace the existing fixed charge coverage ratio until September 30, 2019 with an EBITDA covenant requiring minimum EBITDA for the four fiscal quarters ended on the following dates: September 30, 2018 - $9,240,000; December 31, 2018 - $9,428,000; March 31, 2019 - $9,270,000; June 30, 2019 - $14,195,000. The minimum fixed charge coverage ratio of 1.00:1.00 shall recommence for the quarter ending September 30, 2019. The Second Revolver Amendment also increases the applicable interest rate margin to 3% for Eurodollar Rate Loans (as defined in the PNC Facility) and 2% for Domestic Rate Loans (as defined in the PNC Facility) through September 30, 2019, with applicable margins thereafter of between 2.5% and 3% for Eurodollar Rate Loans and 1.5% and 2% for Domestic Rate Loans based on the applicable fixed charge coverage ratio. In connection with the Second Revolver Amendment, the Borrowers also paid the Agent a waiver and amendment fee of $250,000.

Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations

Certain statements, contained in this section and elsewhere in this Form 10-Q, constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, changes in the laws and regulations affecting the industry, changes in the demand and price for refrigerants (including unfavorable market conditions adversely affecting the demand for, and the price of refrigerants), the Company’s ability to source refrigerants, regulatory and economic factors, seasonality, competition, litigation, the nature of supplier or customer arrangements that become available to the Company in the future, adverse weather conditions, possible technological obsolescence of existing products and services, possible reduction in the carrying value of long-lived assets, estimates of the useful life of its assets, potential environmental liability, customer concentration, the ability to obtain financing, any delays or interruptions in bringing products and services to market, the timely availability of any requisite permits and authorizations from governmental entities and third parties as well as factors relating to doing business outside the United States, including changes in the laws, regulations, policies, and political, financial and economic conditions, including inflation, interest and currency exchange rates, of countries in which the Company may seek to conduct business, the Company’s ability to successfully integrate ARI and any other assets it acquires from third parties into its operations, and other risks detailed in the Company’s Form 10-K for the year ended December 31, 2017 and in the Company’s other subsequent filings with the Securities and Exchange Commission (“SEC”). The words “believe”, “expect”, “anticipate”, “may”, “plan”, “should” and similar expressions identify forward-lookin 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”), goodwill and intangible assets 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 or more frequently if events or circumstances indicate an impairment may be present. Intangibles with determinable lives are amortized over the estimated useful lives of the assets currently ranging from 2 to 13 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 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 was reduced by approximately 4.5 million pounds each year to end at zero in 2020.

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

Recent Acquisition

On October 10, 2017, the Company and its wholly-owned subsidiary, Holdings, completed the Acquisition of ARI and effective October 11, 2017, ARI’s name was changed to Aspen Refrigerants, Inc. At closing, Holdings paid net cash consideration to Airgas of approximately $209 million, which included preliminary post-closing adjustments relating to: (i) changes in the net working capital of ARI as of the closing relative to a net working capital target, (ii) the actual amount of specified types of R-22 refrigerant inventory on hand at closing relative to a target amount thereof, and (iii) other consideration pursuant to the stock purchase agreement.

The cash consideration paid by Holdings at closing was financed with available cash balances, plus $80 million of borrowings under an enhanced asset-based lending facility of $150 million from PNC Bank and a new term loan of $105 million from funds advised by FS Investments.

Results of Operations

Three-month period ended September 30, 2018 as compared to the three-month period ended September 30, 2017

Revenues for the three- month period ended September 30, 2018 were $40.5 million, an increase of $15.8 million or 64% from the $24.7 million reported during the comparable 2017 period primarily due to the acquisition of ARI. Excluding the impact of that acquisition, revenues for the three-month period ended September 30, 2018 decreased by $5.8 million from the comparable 2017 period. This decrease in revenues was mainly attributable to a decrease in the selling price per pound of certain refrigerants sold, which accounted for a decrease in revenues of $2.3 million, and a decrease in the number pounds of certain refrigerants sold, which accounted for a decrease in revenues of $3.5 million.

Cost of sales for the three-month period ended September 30, 2018 was $32.8 million or 81% of sales. The cost of sales for the three-month period ended September 30, 2017 was $19.6 million or 79% of sales. The decrease in the cost of sales percentage between the periods is primarily due to the decrease in the selling price per pound of certain refrigerants sold for the three-month period ended September 30, 2018 compared to the same period in 2017. The Company’s performance has been negatively impacted by the challenging pricing environment affecting the industry and the market during 2018, leading to an increase in inventory reserves for certain gases during the second quarter of 2018.

Selling, general and administrative ("SG&A") expenses for the three-month period ended September 30, 2018 were $7.4 million, an increase of $3.9 million from the $3.5 million reported during the comparable 2017 period. The increase in SG&A is primarily due to ARI operating expenses incurred during the three months ended September 30, 2018 without a corresponding amount during the third quarter of 2017 since the ARI acquisition was not consummated until October 2017. In addition, during the three months ended September 30, 2018 and 2017, the Company incurred $2.2 million and $1.0 million, respectively, of nonrecurring charges, mainly consisting of integration and related fees relating to the acquisition of ARI. During the three-months ended September 30, 2018 the Company also incurred additional expenses of $0.3 million for professional fees relating to the ARI acquisition.

Amortization expense for the three-month period ended September 30, 2018 was $0.7 million, an increase of $0.6 million from the $0.1 million reported during the comparable 2017 period. The variance is almost entirely due to increased amortization expense of intangible assets relating to the ARI acquisition.

Interest expense for the three-month period ended September 30, 2018 was $4.1 million, compared to the $0 reported during the comparable 2017 period. The difference is mainly due to the increase in interest expense relating to additional borrowings as a result of the acquisition of ARI.

The income tax expense for the three-month period ended September 30, 2018 was $9.4 million compared to a $0.7 million income tax benefit for the three-month ended September 30, 2017. The Company established a valuation allowance against its deferred tax asset as of September 30, 2018. The income tax benefit in 2017 arose from $1.2 million of excess tax benefits relating to nonqualified stock option exercises during the third quarter of 2017.

The net loss for the three-month period ended September 30, 2018 was $13.9 million, as compared to $2.1 million of net income reported during the comparable 2017 period, primarily due to the establishment of a valuation allowance against the Company's deferred tax asset, the increased interest expense during the third quarter of 2018 and compression of gross margin attributable to a decrease in the selling price per pound of certain refrigerants sold, offset by the inclusion of ARI results in 2018.

Nine-month period ended September 30, 2018 as compared to the nine- month period ended September 30, 2017

Revenues for the nine- month period ended September 30, 2018 were $140.8 million, an increase of $25.0 million or 21.6% from the $115.8 million reported during the comparable 2017 period primarily due to the acquisition of ARI. Excluding the impact of that acquisition, revenues for the nine-month period ended September 30, 2018 decreased by $44 million from the comparable 2017 period. This decrease in revenues was mainly attributable to a decrease in the selling price per pound of certain refrigerants sold, which accounted for a decrease in revenues of $29 million, and a decrease in the number pounds of certain refrigerants sold, which accounted for a decrease in revenues of $15 million.

Cost of sales for the nine- month period ended September 30, 2018 was $151.3 million or 107% of sales. The cost of sales for the nine-month period ended September 30, 2017 was $80.8 million or 70% of sales. During the second quarter of 2018, the Company recorded a $34.7 million lower of cost or net realizable value adjustment to its inventory. The $34.7 million adjustment included a $17.6 million write-down of a previously recorded step-up in inventory basis associated with the acquisition of ARI and a $17.1 million write-down for a lower of cost or net realizable value adjustment. The Company’s performance has been negatively impacted by the challenging pricing environment affecting the industry and the market during 2018, leading to an increase in inventory reserves for certain gases. The increase in the cost of sales percentage between the periods is primarily due to the decrease in the selling price per pound of certain refrigerants sold for the nine-month period ended September 30, 2018 compared to the same period in 2017. The cost of sales percentage was also negatively impacted by $3.7 million from the amortization of the step up to fair value of R-22 refrigerant inventory acquired in the ARI acquisition that was sold during the nine-month period ended September 30, 2018.

Selling, general and administrative ("SG&A") expenses for the nine-month period ended September 30, 2018 were $26.0 million, an increase of $16.2 million from the $9.8 million reported during the comparable 2017 period. The increase in SG&A is primarily due to ARI operating expenses relating to the ARI operations during the nine-months ended September 30, 2018, since the ARI acquisition was not consummated until October 2017. In addition, during the nine-months ended September 30, 2018 and 2017, the Company incurred $6.1 million and $2.4 million, respectively, of nonrecurring charges, mainly consisting of integration and related fees relating to the acquisition of ARI. During the nine-months ended September 30, 2018 the Company also incurred additional expenses of $0.7 million for professional fees relating to the ARI acquisition.

Amortization expense for the nine- month period ended September 30, 2018 was $2.2 million, an increase of $1.8 million from the $0.4 million reported during the comparable 2017 period. The variance is almost entirely due to increased amortization expense of intangible assets relating to the ARI acquisition.

Interest expense for the nine-month period ended September 30, 2018 was $10.6 million, compared to the $0.2 million reported during the comparable 2017 period. The difference is mainly due to the increase in interest expense relating to additional borrowings as a result of the acquisition of ARI.

The income tax benefit for the nine-month period ended September 30, 2018 was $1.8 million compared to income tax expense of $8.2 million for the nine-month period ended September 30, 2017. The Company established a valuation allowance against its deferred tax asset as of September 30, 2018. For the nine-month period ended September 30, 2017, income tax expense for federal and state income tax purposes was determined by applying statutory income tax rates to pre-tax loss or income after adjusting for certain items. Furthermore, $1.2 million of excess tax benefits relating to nonqualified stock option exercises were recorded during the third quarter of 2017.

The net loss for the nine-month period ended September 30, 2018 was $47.6 million, as compared to $16.4 million of net income reported during the comparable 2017 period, primarily due to the lower of cost or net realizable value adjustment described above, increased interest expense, the compression of gross margin attributable to a decrease in the selling price per pound of certain refrigerants sold, and a decrease in the number pounds of certain refrigerants sold, which was offset by the inclusion of ARI results in 2018.

Liquidity and Capital Resources

At September 30, 2018, the Company had working capital, which represents current assets less current liabilities, of $70.2 million, a decrease of $43.4 million from the working capital of $113.6 million at December 31, 2017. The decrease in working capital is primarily attributable to the $35.9 million lower of cost or net realizable value adjustment relating to the inventory and the net loss for the period ended September 30, 2018.

Inventory and trade receivables are principal components of current assets. At September 30, 2018, the Company had inventory of $106.5 million, a decrease of $66 million from $172.5 million at December 31, 2017. As discussed in the previous section, the decrease in the inventory balance is primarily due to the lower of cost or net realizable value adjustment recorded during the second quarter of 2018. The Company’s ability to sell and replace its inventory on a timely basis and the prices at which it can be sold are subject, among other things, to current market conditions and the nature of supplier or customer arrangements and the Company’s ability to source CFC based refrigerants (which are no longer being produced), HCFC refrigerants (which are currently being phased down leading to a full phase out of virgin production), or non-CFC based refrigerants. At September 30, 2018, the Company had trade receivables, net of allowance for doubtful accounts, of $23.2 million, an increase of $8.4 million from $14.8 million at December 31, 2017. The Company’s trade receivables are concentrated with various wholesalers, brokers, contractors and end-users within the refrigeration industry that are primarily located in the continental United States.

The Company has historically financed its working capital requirements through cash flows from operations, the issuance of debt and equity securities, and bank borrowings.

Net cash provided by operating activities for the nine-month period ended September 30, 2018 was $35.3 million, an increase of $23.2 million compared with the net cash provided by operating activities of $12.1 million for the comparable 2017 period. Net cash provided by operating activities in the 2018 period improved despite the net loss reported in the period due to the timing of inventory sales and purchases during the period and income tax refunds received from the Internal Revenue Service.

Net cash used in investing activities was $1.0 million for the nine-month period ended September 30, 2018, an increase of $0.1 million compared with $0.9 million net cash used in investing activities during the comparable 2017 period. The net cash used in investing activities for the 2018 and 2017 periods was primarily related to investment in general purpose equipment for the Company’s facilities.

Net cash used in financing activities for the nine-month period ended September 30, 2018 was $37.9 million compared with net cash used in financing activities of $1.2 million for the comparable 2017 period. During the nine-month ended September 30, 2018, the Company reduced its borrowing under the PNC Facility and the Term Loan Facility by $36.9 million while during the comparable 2017 period, the Company paid its final earnout relating to the 2015 acquisition of a supplier of refrigerants and compressed gases.

At September 30, 2018, cash and cash equivalents were $1.4 million, or approximately $3.6 million lower than the $5.0 million of cash and cash equivalents at December 31, 2017. During the nine-month period ended September 30, 2018 cash flow from operations was used mainly to pay down debt.

Credit Facilities

Bank Credit Line

On June 22, 2012, Hudson Technologies Company (“HTC”), an indirect subsidiary of the Company, entered into a Revolving Credit, Term Loan and Security Agreement (the “Original PNC Facility”) with PNC Bank, National Association, as agent (“Agent” or “PNC”), and such other lenders as may thereafter become a party to the Original PNC Facility. Between June 2012 and April 2016, the Company entered into six amendments to the Original PNC Facility. Under the terms of the Original PNC Facility, as amended, the Maximum Loan Amount (as defined in the Original PNC Facility) was $40,000,000 to $50,000,000, and the Maximum Revolving Advance Amount (as defined in the Original PNC Facility) was $46,000,000. In addition, there was a $130,000 outstanding letter of credit under the Original PNC Facility at March 31, 2017. The Termination Date of the Original PNC Facility (as defined in the Original PNC Facility) was June 30, 2020.

On October 10, 2017, HTC, Holdings and ARI, as borrowers (collectively, the “Borrowers”), and the Company as a guarantor, became obligated under an Amended and Restated Revolving Credit and Security Agreement (the “PNC Facility”) with PNC Bank, National Association, as administrative agent, collateral agent and lender (“Agent” or “PNC”), PNC Capital Markets LLC as lead arranger and sole bookrunner, and such other lenders as may thereafter become a party to the PNC Facility. The PNC Facility amended and restated the Original PNC Facility.

Under the terms of the PNC Facility, the Borrowers may borrow, from time to time, up to $150 million at any time consisting of revolving loans in a maximum amount up to the lesser of $150 million and a borrowing base that is calculated based on the outstanding amount of the Borrowers’ eligible receivables and eligible inventory, as described in the PNC Facility. The PNC Facility also contains a sublimit of $15 million for swing line loans and $5 million for letters of credit.

Amounts borrowed under the PNC Facility were used by the Borrowers to consummate the acquisition of ARI and for working capital needs, certain permitted future acquisitions, and to reimburse drawings under letters of credit. At September 30, 2018, total borrowings under the PNC Facility were $29.0 million, and total availability was approximately $43.5 million. In addition, there was a $130,000 outstanding letter of credit at September 30, 2018.

Interest on loans under the PNC Facility is payable in arrears on the first day of each month with respect to loans bearing interest at the domestic rate (as set forth in the PNC Facility) and at the end of each interest period with respect to loans bearing interest at the Eurodollar rate (as set forth in the PNC Facility) or, for Eurodollar rate loans with an interest period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar rate loan or (b) the end of the interest period. Interest charges with respect to loans are computed on the actual principal amount of loans outstanding during the month at a rate per annum equal to (A) with respect to domestic rate loans, the sum of (i) a rate per annum equal to the higher of (1) the base commercial lending rate of PNC, (2) the federal funds open rate plus 0.5% and (3) the daily LIBOR plus 1.0%, plus (ii) between 0.50% and 1.00% depending on average quarterly undrawn availability and (B) with respect to Eurodollar rate loans, the sum of the Eurodollar rate plus between 1.50% and 2.00% depending on average quarterly undrawn availability.

Borrowers and the Company granted to the Agent, for the benefit of the lenders, a security interest in substantially all of their respective assets, including receivables, equipment, general intangibles (including intellectual property), inventory, subsidiary stock, real property, and certain other assets.

The PNC Facility contains a financial covenant requiring the Company to maintain at all times a Fixed Charge Coverage Ratio (FCCR) of not less than 1.00 to 1.00, as of the end of each trailing period of four consecutive quarters. The FCCR (as defined in the PNC Facility) is the ratio of (a) EBITDA for such period, minus unfinanced capital expenditures made during such period, minus the aggregate amount of cash taxes paid during such period, to (b) the aggregate amount of all scheduled payments of principal (excluding principal payments relating to outstanding revolving loans under the PNC Facility) and all cash payments of interest, plus cash dividends and distributions made during such period, plus payments in respect of capital lease obligations made during such period. For the fiscal quarters ended on March 31, 2017 and June 30, 2017, EBITDA is deemed to be $21.9 million and $26.1 million, respectively, and for the fiscal quarters ended September 30, 2017 and December 31, 2017 includes EBITDA of ARI on a pro forma basis. As of September 30, 2018 and December 31, 2017, the FCCR was approximately 1.74 to 1 and 6.47 to 1, respectively.

On November 30, 2018, Hudson Technologies Company (“HTC”), an indirect subsidiary of Hudson Technologies, Inc. (the “Company”), and HTC’s affiliates Hudson Holdings, Inc. and Aspen Refrigerants, Inc. (formerly known as Airgas-Refrigerants, Inc.), as borrowers (collectively, the “Borrowers”), and the Company as a guarantor, entered into a Second Amendment to Amended and Restated Revolving Credit and Security Agreement, Consent and Waiver (the “Second Revolver Amendment”) with PNC Bank, National Association, as administrative agent, collateral agent and lender (“Agent” or “PNC”) and the lenders thereunder.

The Second Revolver Amendment amends the Amended and Restated Revolving Credit and Security Agreement dated October 10, 2017 (as amended to date, the “PNC Facility”), to replace the existing fixed charge coverage ratio until September 30, 2019 with an EBITDA covenant requiring minimum EBITDA for the four fiscal quarters ended on the following dates: September 30, 2018 - $9,240,000; December 31, 2018 - $9,428,000; March 31, 2019 - $9,270,000; June 30, 2019 - $14,195,000. The minimum fixed charge coverage ratio of 1.00:1.00 shall recommence for the quarter ending September 30, 2019. The Second Revolver Amendment also increases the applicable interest rate margin to 3% for Eurodollar Rate Loans (as defined in the PNC Facility) and 2% for Domestic Rate Loans (as defined in the PNC Facility) through September 30, 2019, with applicable margins thereafter of between 2.5% and 3% for Eurodollar Rate Loans and 1.5% and 2% for Domestic Rate Loans based on the applicable fixed charge coverage ratio. In connection with the Second Revolver Amendment, the Borrowers also paid the Agent a waiver and amendment fee of $250,000.

The PNC Facility also contains customary non-financial covenants relating to the Company and the Borrowers, including limitations on Borrowers’ 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 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 October 10, 2022, unless the commitments are terminated and the outstanding principal amount of the loans are accelerated sooner following an event of default.

In connection with the closing of the PNC Facility, the Company also entered into an Amended and Restated Guaranty and Suretyship Agreement, dated as of October 10, 2017 (the “Revolver Guarantee”), pursuant to which the Company affirmed its unconditional guarantee of the payment and performance of all obligations owing by Borrowers to PNC, as Agent for the benefit of the revolving lenders.

Term Loan Facility

On October 10, 2017, HTC, Holdings, and ARI, as borrowers, and the Company, as guarantor, became obligated under a Term Loan Credit and Security Agreement (the “Term Loan Facility”) with U.S. Bank National Association, as administrative agent and collateral agent (“Term Loan Agent”) and funds advised by FS Investments and such other lenders as may thereafter become a party to the Term Loan Facility (the “Term Loan Lenders”).

Under the terms of the Term Loan Facility, the Borrowers immediately borrowed $105 million pursuant to a term loan (the “Initial Term Loan”) and could borrow up to an additional $25 million for a period of eighteen months after closing to fund additional permitted acquisitions (the “Delayed Draw Commitment”, and together with the Initial Term Loan, the “Term Loans”). The Delayed Draw Commitment was terminated effective June 29, 2018 (the “First Amendment”).

The Term Loans mature on October 10, 2023. Principal payments on the Term Loans are required on a quarterly basis, commencing with the quarter ended March 31, 2018, in the amount of 1% per annum of the original principal of the outstanding Term Loans. Commencing with the fiscal year ending December 31, 2018, the Term Loan Facility also requires annual principal payments of up to 50% of Excess Cash Flow (as defined in the Term Loan Facility) if the Company’s Total Leverage Ratio (as defined in the Term Loan Facility) for the applicable year is greater than 2.75 to 1.00. The Term Loan Facility also requires mandatory prepayments of the Term Loans in the event of certain asset dispositions, debt issuances, and casualty and condemnation events. The Term Loans may be prepaid at the option of the Borrowers at par in an amount up to $30 million. Additional prepayments are permitted after the first anniversary of the closing date and were originally subject to a prepayment premium of 3% in year two, 1% in year three and zero in year four and thereafter.

Interest on the Term Loans is generally payable on the earlier of the last day of the interest period applicable to such Eurodollar rate loan and the last day of the Term Loan Facility, as applicable. Interest was originally payable at the rate per annum of the Eurodollar Rate (as defined in the Term Loan Facility) plus 7.25%. The Borrowers have the option of paying 3.00% interest per annum in kind by adding such amount to the principal of the Term Loans during no more than five fiscal quarters during the term of the Term Loan Facility.

Borrowers and the Company granted to the Term Loan Agent, for the benefit of the Term Loan Lenders, a security interest in substantially all of their respective assets, including receivables, equipment, general intangibles (including intellectual property), inventory, subsidiary stock, real property, and certain other assets.

The Term Loan Facility originally contained a financial covenant requiring the Company to maintain a Total Leverage Ratio (TLR) of not greater than 4.75 to 1.00, tested as of the last day of the fiscal quarter. The Term Loan Facility was amended on August 14, 2018, including a waiver of the TLR covenant at June 30, 2018, as described below. The TLR (as defined in the Term Loan Facility) is the ratio of (a) funded debt as of such day to (b) EBITDA for the four consecutive fiscal quarters ending on the last day of such fiscal quarter. Funded debt (as defined in the Term Loan Facility) includes amounts borrowed under the PNC Facility and the Term Loan Facility as well as capitalized lease obligations and other indebtedness for borrowed money maturing more than one year from the date of creation thereof. For the fiscal quarters ended on March 31, 2017 and June 30, 2017, EBITDA is deemed to be $21.9 million and $26.1 million, respectively, and for the fiscal quarters ended September 30, 2017 and December 31, 2017 includes EBITDA of ARI on a pro forma basis. As of September 30, 2018 and December 31, 2017, the TLR was approximately 12.44 to 1 and 3.03 to 1, respectively.

The Term Loan Facility also contains customary non-financial covenants relating to the Company and the Borrowers, including limitations on their 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.

In connection with the closing of the Term Loan Facility, the Company also entered into a Guaranty and Suretyship Agreement, dated as of October 10, 2017 (the “Term Loan Guarantee”), pursuant to which the Company affirmed its unconditional guarantee of the payment and performance of all obligations owing by Borrowers to Term Loan Agent, as agent for the benefit of the Term Loan Lenders.

The Term Loan Agent and the Agent have entered into an intercreditor agreement governing the relative priority of their security interests granted by the Borrowers and the Guarantor in the collateral, providing that the Agent shall have a first priority security interest in the accounts receivable, inventory, deposit accounts and certain other assets (the “Revolving Credit Priority Collateral”) and the Term Loan Agent shall have a first priority security interest in the equipment, real property, capital stock of subsidiaries and certain other assets (the “Term Loan Priority Collateral”).

On August 14, 2018, HTC, Holdings and ARI, as borrowers, and the Company as a guarantor, entered into a Waiver and Second Amendment to Term Loan Credit and Security Agreement (the “Second Amendment”) with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder. The Second Amendment superseded interim waivers and amended the Term Loan Facility, to waive compliance with the existing TLR covenant at June 30, 2018.

In addition, the Second Amendment also: (i) increases the interest rate by 300 basis points effective July 1, 2018; (ii) waives the existing prepayment premium in the Term Loan Facility in the event the term loan is repaid in full prior to March 31, 2020; (iii) adds an exit fee equal to three percent (3.00%) of the outstanding principal balance of the term loans on the date of the Second Amendment (provided, that payment of the exit fee is waived in the event that the term loan is repaid in full prior to January 1, 2020, and provided further that the exit fee is reduced to one-and-one-half percent (1.50%) in the event that the term loan is repaid in full on or after January 1, 2020 but prior to March 31, 2020); (iv) restricts acquisitions and other equity investments prior to September 30, 2018; and (v) required payment of a one-time waiver fee equal to one percent (1.00%) of the outstanding term loans.

On November 30, 2018, Hudson Technologies Company (“HTC”), an indirect subsidiary of Hudson Technologies, Inc. (the “Company”), and HTC’s affiliates Hudson Holdings, Inc. and Aspen Refrigerants, Inc. (formerly known as Airgas-Refrigerants, Inc.), as borrowers (collectively, the “Borrowers”), and the Company as a guarantor, entered into a Waiver and Third Amendment to Term Loan Credit and Security Agreement (the “Third Amendment”) with U.S. Bank National Association, as collateral agent and administrative agent, and the various lenders thereunder.

The Third Amendment superseded interim waivers and amended the Term Loan Credit and Security Agreement dated October 10, 2017 (as previously amended, the “Term Loan Facility”) to reset the maximum Total Leverage Ratio covenant contained in the Term Loan Facility at the indicated dates as follows: (i) June 30, 2018 - 10.15:1.00; (ii) September 30, 2018 - 12.45:1.00; (iii) December 31, 2018 – 12.75:1.00; (iv) March 31, 2019 – 12.95:1.00; (v) June 30, 2019 – 8.25:1.00; September 30, 2019 – 6.40:1.00; (vi) December 31, 2019 – 5:70:1.00; and (vii) March 31, 2020 and each fiscal quarter thereafter – 4:75:1.00.

The Third Amendment increases the scheduled quarterly principal repayments to $525,000 effective December 31, 2018. In addition the Third Amendment requires a further repayment of principal on or before November 14, 2019 in an amount equal to (x) 100% of Excess Cash Flow (as defined in the Term Loan Facility) for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability (as defined in the Term Loan Facility) of at least $35,000,000, (y) 50% of Excess Cash Flow for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability of at least $15,000,000 but less than $35,000,000, and (z) 0% of Excess Cash Flow for the four fiscal quarter period ending September 30, 2019 if after giving effect to the payment thereof, the Borrowers have minimum aggregate Undrawn Availability less than $15,000,000, with any such payment subject to reduction by the amount of any voluntary prepayments made following the date of the Third Amendment. Any voluntary prepayments will not be subject to the prepayment premium or make-whole provisions of the Term Loan Facility. The Third Amendment also adds a minimum liquidity requirement (consisting of cash plus undrawn availability on the Borrowers’ revolving loan facility) of $28 million, measured monthly.

The Third Amendment also amended the exit fee payable to the term loan lenders to five percent (5.00%) of the outstanding principal balance of the term loans on November 30, 2018 (the “Exit Fee”), which Exit Fee shall be payable in full in cash upon the earlier to occur of (x) repayment in full of the term loans, or (y) any acceleration of the term loans. The Exit Fee will be reduced by one-tenth of one percent (0.10%) for every $1,000,000 in voluntary prepayments made prior to January 1, 2020; provided, that, in no event shall the Exit Fee be reduced below three percent (3.00%) as a result of any such prepayments, (ii) payment of the Exit Fee shall be waived in the event that repayment in full of the term loans occurs prior to January 1, 2020, and (iii) the Exit Fee shall be reduced by an amount equal to fifty percent (50%) of the amount that would otherwise payable in the event that repayment in full occurs on or after January 1, 2020 but prior to March 31, 2020.

The Company evaluated the First and Second Amendments in accordance with the provisions of ASC 470 to determine if the Amendments were a modification or an extinguishment of debt and concluded that both amendments were a modification of the original term loan agreement for accounting purposes. As a result, the Company capitalized an additional $1.0 million of deferred financing costs in connection with the Second Amendment, which are being amortized over the remaining term.

The Company was in compliance with all covenants, under the PNC Facility and the Term Loan Facility, as amended, as of September 30, 2018. 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. Therefore, we cannot make any assurance that we will continue to be in compliance during future periods.

The Company believes that it will be able to satisfy its working capital requirements for the foreseeable future from anticipated cash flows from operations and available funds under the PNC Facility. Any unanticipated expenses, including, but not limited to, an increase in the cost of refrigerants purchased by the Company, an increase in operating expenses or failure to achieve expected revenues from the Company's RefrigerantSide® Services and/or refrigerant sales or additional expansion or acquisition costs that may arise in the future would adversely affect the Company's future capital needs. There can be no assurance that the Company's proposed or future plans will be successful, and as such, the Company may require additional capital sooner than anticipated, which capital may not be available 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 nine month period ended September 30, 2018, there were no customers that accounted for 10% or more of the Company’s revenues.

For the nine month period ended September 30, 2017, two customers each accounted for 10% or more of the Company’s revenues and, in the aggregate these two customers accounted for 37% of the Company’s revenues. At September 30, 2017, there were $4.3 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 January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (ASU 2017-04) which simplifies the accounting for goodwill impairment by eliminating Step 2 of the current goodwill impairment test that requires a hypothetical purchase price allocation to measure goodwill impairment. Under the new standard, a company will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. ASU 2017-04 does not change the guidance on completing Step 1 of the goodwill impairment test and still allows a company to perform the optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. The standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted for any impairment test performed on testing dates after January 1, 2017. The Company adopted this standard on January 1, 2017 and has applied its guidance in its impairment assessments.

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.” This guidance involves several aspects of accounting for employee share-based payments including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The Company adopted this ASU on a prospective basis on January 1, 2017. Excess tax benefits and deficiencies are recognized in the consolidated statement of earnings rather than capital in excess of par value of stock. Excess tax benefits within the consolidated statement of cash flows are presented as an operating activity. The impact of the adoption on the Company’s income tax expense or benefit and related cash flows during and after the period of adoption are dependent in part upon grants and vesting of stock-based compensation awards and other factors that are not fully controllable or predicable by the Company, such as the future market price of the Company’s common stock, the timing of employee exercises of vested stock options, and the future achievement of performance criteria that affect performance-based awards. The Company adopted this ASU at the beginning of 2017 and during 2017, the impact of this standard reduced the Company’s income tax expense and increased net income by approximately $2.4 million.

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.

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.

Item 3 - 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 and on the Term Loan Facility. The PNC Facility is a $150 million secured facility, and the Term Loan Facility provides for Term Loans of $105 million. Interest on loans under the PNC Facility is payable in arrears on the first day of each month with respect to loans bearing interest at the domestic rate (as set forth in the PNC Facility) and at the end of each interest period with respect to loans bearing interest at the Eurodollar rate (as set forth in the PNC Facility) or, for Eurodollar rate loans with an interest period in excess of three months, at the earlier of (a) each three months from the commencement of such Eurodollar rate loan or (b) the end of the interest period. Interest charges with respect to loans are computed on the actual principal amount of loans outstanding during the month at a rate per annum equal to (A) with respect to domestic rate loans, the sum of (i) a rate per annum equal to the higher of (1) the base commercial lending rate of PNC, (2) the federal funds open rate plus 0.5% and (3) the daily LIBOR plus 1.0%, plus (ii) 2% and (B) with respect to Eurodollar rate loans, the sum of the Eurodollar rate plus 3%. There was a $29.0 million outstanding balance on the PNC Facility as of September 30, 2018. Future interest rate changes on our borrowing under the PNC Facility may have an impact on our consolidated results of operations.

Interest on the Term Loans is payable at the rate per annum of the Eurodollar Rate (as defined in the Term Loan Facility) plus 10.25% and is generally payable on the earlier of the last day of the interest period applicable to such Eurodollar rate loan and the last day of the Term Loan Facility, as applicable. There was a $104,212,500 outstanding balance on the Term Loan Facility as of September 30, 2018. Future interest rate changes on our borrowing under the Term Loans may have an impact on our consolidated results of operations.

If the loan bearing interest rate changed by 100 basis points per annum, the annual effect on interest expense would be approximately $1.3 million as of September 30, 2018.

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.

During the second quarter of 2018, the Company recorded a $34.7 million lower of cost or net realizable value adjustment of its inventory. The Company's performance has been negatively impacted by the challenging pricing environment affecting the industry and the market during the second quarter of 2018, leading to an increase in inventory reserves for certain gases.

Item 4 - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this Form 10-Q.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives including that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In addition, management is required to apply its judgment in evaluating the benefits of possible disclosure controls and procedures relative to their costs to implement and maintain such controls and procedures.

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2018 as a result of the following material weakness:

We lack a sufficient complement of competent finance personnel to appropriately account for, review, and disclose the completeness and accuracy of transactions entered into by the Company.

Management believes that the material weakness noted is due in part to the reduction in size of the finance staff resulting from various staff departures that occurred during the first half of 2018, as a result of the relocation of the finance staff of ARI, which was acquired during the fourth quarter of 2017.

As part of our remediation plan, we have hired additional employees and external consultants who have the technical skillset to improve our financial reporting; implement new policies, procedures and controls; properly review transactions recorded and classified in the financial statements; and ensure proper accounting and related disclosures for complex accounting matters when necessary. We hired these individuals in September 2018 and expect to fully remediate this material weakness, including documentation and testing, by December 31, 2018.

Changes in Internal Control over Financial Reporting

As previously discussed, the Company acquired ARI on October 10, 2017, resulting in changes in the Company's internal control over financial reporting relating to new controls, as stated in the Controls and Procedures Section in Part II, Item 9A of the Company's Form 10-K for the year ended December 31, 2017. There were no other 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 September 30, 2018 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1 - Legal Proceedings

For information regarding pending legal matters, refer to the Legal Proceedings Section in Part I, Item 3 of the Company's Form 10-K for the year ended December 31, 2017. There have been no material changes to such matters during the quarter ended September 30, 2018.

Item 6 - Exhibits

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

HUDSON TECHNOLOGIES, INC.

By:	/s/ Kevin J. Zugibe	November 30, 2018
	Kevin J. Zugibe	**Date**
	Chairman and	
	Chief Executive Officer	
By:	/s/ Nat Krishnamurti	November 30, 2018
	Nat Krishnamurti	**Date**
	Chief Financial Officer	

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