

HUDSON TECHNOLOGIES INC /NY
Form 10QSB
August 02, 2004

United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-QSB

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

For the quarterly period ended June 30, 2004

OR

TRANSITION REPORT UNDER 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 Small Business Issuer as Specified in its Charter)

New York

13-3641539

(State or Other Jurisdiction of
Incorporation or Organization)

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

275 North Middletown Road
Pearl River, New York

10965

(Address of Principal Executive Offices)

(845) 735-6000

(Issuer's Telephone Number)

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes [X] No []**.

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

| | |
|---------------------------------------|------------------------------|
| <u>Common stock, \$0.01 par value</u> | <u>25,517,594 shares</u> |
| Class | Outstanding at July 30, 2004 |

Transitional Small Business Disclosure Format (check one): **Yes [] No [X]**.

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Hudson Technologies, Inc.

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Part I - FINANCIAL INFORMATION

Hudson Technologies, Inc. and subsidiaries

Consolidated Balance Sheets

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

| | <u>June</u> <u>30,</u> <u>2004</u> (unaudited) | <u>December 31,</u> <u>2003</u> |
|--|---|------------------------------------|
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 265 | \$ 656 |
| Trade accounts receivable - net of allowance for doubtful accounts of \$317 and \$272 | 2,853 | 1,954 |
| Inventories | 2,184 | 2,587 |
| Prepaid expenses and other current assets | <u>549</u> | <u>269</u> |
| Total current assets | 5,851 | 5,466 |
| Property, plant and equipment, less accumulated depreciation | 1,934 | 2,193 |
| Other assets | <u>121</u> | <u>137</u> |
| Total Assets | \$ 7,906 ===== | \$ 7,796 ===== |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 2,735 | \$ 3,033 |
| Short-term debt and current maturities of long-term debt | <u>1,780</u> | <u>1,777</u> |
| Total current liabilities | 4,515 | 4,810 |
| Long-term debt, less current maturities | <u>325</u> | <u>380</u> |
| Total Liabilities | <u>4,840</u> | <u>5,190</u> |

Commitments and contingencies

Stockholders' equity:

Preferred stock shares authorized 5,000,000:

Series A Convertible Preferred stock, \$.01 par value

(\$100

liquidation preference value); shares authorized 150,000;

issued and outstanding none and 125,085

-- 12,509

Common stock, \$.01 par value; shares authorized 50,000,000;

issued and outstanding 25,517,594 and 8,999,626

255 90

Additional paid-in capital

35,054 22,665

Accumulated deficit

(32,243) (32,658)

Total Stockholders' Equity

3,066 2,606

Total Liabilities and Stockholders' Equity

\$ 7,906 \$ 7,796

=====

See accompanying Notes to the Consolidated Financial Statements.

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Hudson Technologies, Inc. and subsidiaries

Consolidated Statements of Operations

(unaudited)

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

| | <u>Three month period</u> | | <u>Six month period</u> | |
|---------------|---------------------------|--------------|-------------------------|--------------|
| | <u>ended June 30,</u> | | <u>ended June 30,</u> | |
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Revenues | \$4,431 | \$5,064 | \$8,176 | \$10,741 |
| Cost of sales | <u>2,498</u> | <u>3,537</u> | <u>5,086</u> | <u>7,595</u> |
| Gross Profit | <u>1,933</u> | <u>1,527</u> | <u>3,090</u> | <u>3,146</u> |

Operating expenses:

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| | | | | |
|---|--------------|--------------|--------------|--------------|
| Selling and marketing | 337 | 375 | 695 | 1,018 |
| General and administrative | 824 | 930 | 1,509 | 1,897 |
| Reorganization cost | -- | 350 | -- | 350 |
| Depreciation and amortization | <u>180</u> | <u>212</u> | <u>370</u> | <u>455</u> |
| Total operating expenses | <u>1,341</u> | <u>1,867</u> | <u>2,574</u> | <u>3,720</u> |
| Operating income (loss) | <u>592</u> | <u>(340)</u> | <u>516</u> | <u>(574)</u> |
| Other income (expense): | | | | |
| Interest expense | (87) | (97) | (177) | (285) |
| Other income (expense) | -- | (82) | -- | (82) |
| Gain on sale of assets | <u>9</u> | <u>--</u> | <u>76</u> | <u>--</u> |
| Total other income (expense) | <u>(78)</u> | <u>(179)</u> | <u>(101)</u> | <u>(367)</u> |
| Income (loss) before income taxes | 514 | (519) | 415 | (941) |
| Income taxes | = | = | = | = |
| Net income (loss) | 514 | (519) | 415 | (941) |
| Preferred stock dividends | -- | <u>(211)</u> | <u>(228)</u> | <u>(429)</u> |
| Available for common shareholders | \$ 514 | \$ (730) | \$ 187 | \$ (1,370) |
| | ===== | ===== | ===== | ===== |
| Net income (loss) per common share - basic | \$ 0.02 | \$ (0.14) | \$ 0.01 | \$ (0.27) |
| | ===== | ===== | ===== | ===== |
| Net income (loss) per common share - diluted | \$ 0.02 | \$ (0.14) | \$ 0.01 | \$ (0.27) |
| | ===== | ===== | ===== | ===== |
| Weighted average number of shares outstanding - basic | 25,517,594 | 5,165,187 | 17,258,610 | 5,165,103 |
| | ===== | ===== | ===== | ===== |
| Weighted average number of shares outstanding - diluted | 25,546,450 | 5,165,187 | 17,287,466 | 5,165,103 |
| | ===== | ===== | ===== | ===== |

See accompanying Notes to the Consolidated Financial Statements.

Hudson Technologies, Inc. and subsidiaries

Consolidated Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

(unaudited)

(Amounts in thousands)

| | Six month period <u>ended June 30,</u> | |
|---|--|----------------|
| | <u>2004</u> | <u>2003</u> |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 415 | \$(941) |
| Adjustments to reconcile net income (loss) to cash used by operating activities: | | |
| Depreciation and amortization | 370 | 455 |
| Allowance for doubtful accounts | 60 | 60 |
| Amortization of original issue discount | -- | 60 |
| Gain on sale of assets | (76) | -- |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (959) | (1,457) |
| Inventories | 403 | 614 |
| Prepaid expenses and other current assets | (280) | (144) |
| Other assets | 11 | (15) |
| Accounts payable and accrued expenses | <u>(298)</u> | <u>296</u> |
| Cash used by operating activities | <u>(354)</u> | <u>(1,072)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of property, plant and equipment | 112 | -- |
| Additions to patents | (2) | (14) |
| Additions to property, plant, and equipment | <u>(140)</u> | <u>(136)</u> |
| Cash used by investing activities | <u>(30)</u> | <u>(150)</u> |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock - net | 45 | 1 |
| Proceeds from (repayment of) short-term debt - net | 90 | (148) |

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| | | |
|--|--------------|--------------|
| Proceeds from long-term debt | -- | 1,538 |
| Repayment of long-term debt | <u>(142)</u> | <u>(441)</u> |
| Cash (used) provided by financing activities | <u>(7)</u> | <u>950</u> |
| Decrease in cash and cash equivalents | (391) | (272) |
| Cash and cash equivalents at beginning of period | <u>656</u> | <u>545</u> |
| Cash and cash equivalents at end of period | \$ 265 | \$ 273 |
| | ===== | ===== |

Supplemental disclosure of cash flow information:

| | | |
|--------------------------------------|--------|--------|
| Cash paid during period for interest | \$ 177 | \$ 285 |
|--------------------------------------|--------|--------|

Supplemental schedule of non-cash investing and financing activities:

| | | |
|--|--------|--------|
| In-kind payment of preferred stock dividends | \$ 445 | \$ 415 |
|--|--------|--------|

See accompanying Notes to the Consolidated Financial Statements

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Hudson Technologies, Inc. and subsidiaries

Notes to the Consolidated Financial Statements

Note 1- Summary of significant accounting policies

Business

Hudson Technologies, Inc., incorporated under the laws of New York on January 11, 1991, together with its subsidiaries (collectively, "Hudson" or the "Company"), is a refrigerant services company providing innovative solutions to recurring problems within the refrigeration industry. The Company's products and services are primarily used in commercial air conditioning, industrial processing and refrigeration systems, including (i) refrigerant sales, (ii) RefrigerantSide® Services performed at a customer's site, consisting of system decontamination to remove moisture, oils and other contaminants and (iii) reclamation of refrigerants. The Company operates through its wholly owned subsidiary Hudson Technologies Company.

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the instructions of Regulation S-B. 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 the quarterly report should be read in conjunction with the Company's audited financial statements and related notes thereto for the year ended December 31, 2003. Operating results for the six month period ended June 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2004.

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

Consolidation

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

Reclassification

Certain account balances have been reclassified for comparative purposes.

Fair value of financial instruments

The carrying values of financial instruments including trade accounts receivable, and accounts payable approximate fair value at June 30, 2004, because of the relatively short maturity of these instruments. The carrying value of short-and long-term debt approximates fair value, based upon quoted market rates of similar debt issues, as of June 30, 2004 and December 31, 2003.

Credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of temporary cash investments and trade accounts receivable. The Company maintains its temporary cash investments in highly-rated financial institutions that exceed FDIC insurance coverage. The Company's trade accounts receivables are primarily due from companies throughout the U.S. 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 and the carrying value of its accounts receivable are reduced by the established allowance. The allowance for doubtful accounts includes any accounts receivable balances that are determined to be uncollectable, along with a general reserve for the remaining accounts receivable balances. The Company may adjust its general or specific reserves based on factors that affect the collectibility of the accounts receivable balances.

During the six month period ended June 30, 2004, no customer accounted for 10% of the Company's revenues. During the six month period ended June 30, 2003, one customer accounted for 10% of the Company's revenues.

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

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 reclaimed refrigerant products available for sale, are stated at the lower of cost, on a first-in first-out basis, or market.

Property, plant, and equipment

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

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

Revenues and cost of sales

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

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

| | | |
|-----------------------------------|--------------|--------------|
| Six month period ended June 30, | | |
| (in thousands) | <u>2004</u> | <u>2003</u> |
| Refrigerant and reclamation sales | \$6,137 | \$ |
| | | 9,130 |
| RefrigerantSide® Services | <u>2,039</u> | <u>1,611</u> |
| Total | \$8,176 | \$10,741 |
| | ===== | ===== |

Income taxes

The Company utilizes the asset and liability method for recording deferred income taxes, which provides for the establishment of deferred tax asset or liability accounts based on the difference between tax and financial reporting bases of certain assets and liabilities.

The Company recognized a reserve allowance against the deferred tax benefit for the prior period losses. The tax benefit associated with the Company's net operating loss carry forwards would be recognized to the extent that the Company recognized net income in future periods.

Income (loss) per common and equivalent shares

Income (loss) per common share, Basic, is calculated based on the net income (loss) for the period plus dividends on the outstanding Series A Preferred Stock, \$228,000 and \$429,000 for the six month period ended June 30, 2004 and 2003, respectively, divided by the weighted average number of shares outstanding. If dilutive, common equivalent shares (common shares assuming exercise of options and warrants or conversion of Preferred Stock) utilizing the treasury stock method are considered in the presentation of dilutive earnings per share.

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Estimates and Risks

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect reported amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities, and the results of operations during the reporting period. Actual results could differ from these estimates.

The Company participates in an industry that is highly regulated, changes in which could affect operating results. Currently the Company purchases virgin and reclaimable refrigerants from domestic suppliers and its customers. To the extent that the Company is unable to obtain refrigerants on commercially reasonable terms or experiences a decline in demand for refrigerants, the Company could realize reductions in refrigerant processing and possible loss of revenues, which would have a material adverse affect on operating results.

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 would have a material adverse effect on operating results and its financial position.

Impairment of long-lived assets and long-lived assets to be disposed of

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.

Stock options

The Company has historically used the intrinsic value method of accounting for employee stock options as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, compensation cost for stock options has been measured as the excess, if any, of the quoted market price of Company stock at the date of the grant over the amount the employee must pay to acquire the stock. The compensation cost is recognized over the vesting period of the options.

Both the stock-based employee compensation cost included in the determination of the net income as reported and the stock-based employee compensation cost that would have been included in the determination of net income if the fair value based method had been applied to all awards, as well as the resulting pro forma net income and earning per share using the fair value approach, are presented in the following table. These pro forma amounts may not be

representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

| Six month period ended June 30, | <u>2004</u> | <u>2003</u> |
|---|-------------|-------------|
| <u>Pro forma results</u> | | |
| (In thousands, except per share amounts) | | |
| Net income (loss) available for common shareholders: | | |
| As reported | \$ 187 | \$ (1,370) |
| Total stock based employee compensation expense determined under fair value based method | <u>136</u> | <u>148</u> |
| Pro forma | \$ 51 | \$ (1,518) |
| Income (loss) per common share-basic and diluted: | | |
| As reported | \$ 0.01 | \$ (0.27) |
| Pro forma | \$ | \$ (0.29) |

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Recent accounting pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued FIN No. 46, Consolidation of Variable Interest Entities, and in December 2003, a revised interpretation was issued (FIN No. 46(R)) ("FIN 46"). In general, a variable interest entity ("VIE") is a corporation, partnership, trust, or any other legal structure used for business purposes that either does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a VIE to be consolidated by a company if that company is designated as the primary beneficiary. Application of FIN 46 is required in financial statements of public entities that have interest in structures that are commonly referred to as special-purpose entities, or SPEs, for periods ending after December 15, 2003. Application by public entities, other than small business issuers, for all other types of VIEs (i.e. non-SPEs) is required in financial statements for periods ending after March 15, 2004. The adoption of FIN 46 did not have a material effect on the Company's financial position or results of operations.

Note 2 - Other expenses

For the six months ended June 30, 2004, other expense of \$101,000 consisted of interest expense of approximately \$177,000 offset by a gain on sale of assets. For the six month period ended June 30, 2003, other expense of \$367,000 consisted of interest expense of approximately \$285,000 and finance charges associated with the Company's prior credit facility of \$82,000.

Note 3 - Stockholders' Equity

On March 31, 2004, the holders of the Series A Preferred Stock converted all of their shares of the Series A Preferred Stock into Common Stock at a conversion price of \$.79 per share. Upon conversion the holders of the Series A Preferred Stock received 16,397,468 shares of Common Stock.

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

Safe Harbor Statement Under The Private Securities Litigation Reform Act of 1995

Certain statements contained in this section and elsewhere in this Form 10-QSB 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 markets for refrigerants (including unfavorable market conditions adversely affecting the demand for, and the price of refrigerants), the Company's ability to source chlorofluorocarbon ("CFC") based refrigerants, regulatory and economic factors, seasonality, competition, litigation, the nature of supplier or customer arrangements which 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, and other risks detailed in the Company's other periodic reports filed with the Securities and Exchange Commission. The words "believe", "expect", "anticipate", "may", "plan", "should" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these 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 judgements, uncertainties and estimations. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. To the extent that actual results differ from management's judgements and estimates, there could be a material adverse effect on the Company. On an on-going basis, the Company evaluates its estimates, including, but not limited to, those estimates related to its allowance for doubtful accounts, inventories 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. 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 estimated liabilities could differ from the original estimates.

Overview

Over the past few years, the Company has been attempting to grow its service revenues through the development of a service offering known as RefrigerantSide® Services. RefrigerantSide® Services are sold to contractors and end-users

associated with refrigeration systems in commercial air conditioning and industrial processing industries. 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.

During 1999 and 2001, the Company completed sales of its Series A Preferred Stock. The net proceeds of these sales were used to expand the Company's service offering through a network of service depots and to provide working capital. Management believes that its RefrigerantSide® Services represent the Company's long term growth potential. However, during 2002 and portions of 2003 the Company had not been successful in growing its RefrigerantSide® Services revenue. As part of the Company's goal to grow its RefrigerantSide® Services business, in 2002, the Company commenced a restructuring of its sales and marketing efforts culminating in the reorganization of the Company in May 2003. As a result of the reorganization, the Company has determined to focus its future sales and marketing efforts on vertical markets; rather than geographic markets that had been the focus associated with its network of service depots. In pursuing its vertical strategy, the Company expects to focus its RefrigerantSide® Services on specific industries, including petrochemical, pharmaceutical, industrial power, manufacturing, commercial facility and property management and maritime. Moreover, to maintain its current ability to quickly respond to customer service requests throughout the United States, the Company intends to create strategic alliances with companies that will allow it to co-locate its equipment and to utilize these partners' sales and marketing resources to offer their customers the Company's RefrigerantSide® Services. In addition, as a result of the Company's new market strategy, the Company closed five of its service depots during 2003. The territories previously served by the closed depots are now served by the Company's remaining service depots. The Company is beginning to develop this new sales and marketing strategy and in the near term, may incur additional expenses and losses related to the development of its RefrigerantSide® Services. During the six months ended June 30, 2004 the Company's revenues from its RefrigerantSide® Services was \$2,039,000 compared to \$1,611,000 for the comparable 2003 period.

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Sales of refrigerants continue to represent a majority of the Company's revenues. Most of the Company's refrigerant sales are CFC based refrigerants, which are no longer manufactured. In addition, the Company expects that, over time, the demand for CFC based refrigerants will continue to decrease as equipment that utilizes other chemical based refrigerants replaces those units that utilize CFC based refrigerants, particularly in the automotive aftermarket segment of the refrigerant sales industry. To the extent that the Company is unable to source CFC based refrigerants on commercially reasonable terms or at all, or the demand for CFC based refrigerants decreases, the Company's financial condition and results of operations could be materially adversely affected. In addition, to the extent that the Company is unable to source replacements to the CFC based refrigerants, the Company's financial condition and results of operations would be materially adversely affected.

The Company believes that, for the foreseeable future in the refrigeration industry overall, there will be a trend towards lower sales prices, volumes and gross profit margins on refrigerant sales, which may result in an adverse effect on the Company's operating results. In addition, to the extent that the Company is unable to obtain refrigerants on commercially reasonable terms or experiences a decline in demand for refrigerants, the Company could realize reductions in refrigerant processing, and loss of revenues, which would have a material adverse effect on its operating results.

Results of Operations

Three month period ended June 30, 2004 as compared to three month period ended June 30, 2003

Revenues for the three month period ended June 30, 2004 were \$4,431,000, a decrease of \$633,000 or 13% from the \$5,064,000 reported during the comparable 2003 period. The decrease in revenues was primarily attributable to a decrease in refrigerant revenues partially offset by an increase in RefrigerantSide® Services revenues. The decrease in refrigerant revenues is related to a reduction in the sales prices per pound and volume of refrigerants sold to the automotive aftermarket and to a lesser extent a reduction in the volume of other refrigerants sold. The Company believes that the decline in automotive refrigerants was based on a declining demand for these products. The Company believes that the decline in volume of other refrigerants is due to seasonality. The increase in RefrigerantSide® Services was primarily attributed to an increase in the revenue per job sold, which is a consequence of the reorganization of the Company's sales and marketing efforts.

Cost of sales for the three month period ended June 30, 2004 was \$2,498,000, a decrease of \$1,039,000 or 29% from the \$3,537,000 reported during the comparable 2003 period. The decrease in cost of sales was primarily due to a reduction in materials cost of refrigerants sold, which is directly related to the reduction in refrigerant revenues described above, and to a lesser extent a reduction in payroll associated with the Company's RefrigerantSide® Services due to fewer employees supporting RefrigerantSide® Services. As a percentage of sales, cost of sales were 56% of revenues for 2004, a decrease from the 70% reported for the comparable 2003 period. The decrease in cost of sales as a percentage of revenues was primarily attributable to a reduction in material costs of refrigerants sold.

Operating expenses for the three month period ended June 30, 2004 were \$1,341,000, a decrease of \$526,000 or 28% from the \$1,867,000 reported during the comparable 2003 period. The decrease was primarily attributable to a reduction in selling, general and administrative and reorganization costs due to the Company's reorganization of the Company's RefrigerantSide® Service offering that occurred in May 2003 and a reduction in depreciation and amortization costs.

Other income (expense) for the three month period ended June 30, 2004 was \$(78,000), compared to the \$(179,000) reported during the comparable 2003 period. Other income (expense) for 2004 includes interest expense of \$87,000 offset by a gain on sale of assets of \$9,000. Other income (expense) for 2003 includes interest expense of \$97,000 and \$99,000 of finance charges from the Company's prior credit facility offset by sub-lease income of \$17,000. The decrease in interest expense in 2004 when compared to 2003 is primarily attributed to a reduction in outstanding indebtedness.

No income taxes for the three month period ended June 30, 2004 and 2003 were recognized. During the 2004 period no income taxes were recognized on the \$514,000 of income before taxes due to the utilization of net operating loss carry forwards from prior periods. The Company recognized a reserve allowance against the deferred tax benefit for the 2003 losses. The tax benefits associated with the Company's net operating loss carry forwards would be recognized to the extent that the Company recognizes net income in future periods. A portion of the Company's net operating loss carry forwards are subject to annual limitations.

Net income for the three month period ended June 30, 2004 was \$514,000, an increase of \$1,033,000 from the \$519,000 net loss reported during the comparable 2003 period. The increase in net income was primarily attributable to an increase in the gross profit on the Company's revenues and a decrease in selling, general and administrative and reorganization expenses due to the reorganization of the Company's RefrigerantSide® Service offering that occurred in May 2003.

Six months ended June 30, 2004 as compared to the six months ended June 30, 2003

Revenues for the six months ended June 30, 2004 were \$8,176,000, a decrease of \$2,565,000 or 24% from the \$10,741,000 reported during the comparable 2003 period. The decrease in revenues was primarily attributable to a decrease in refrigerant revenues offset by an increase in RefrigerantSide® Services revenues. The decrease in refrigerant revenues is related to a reduction in the sales prices per pound and volume of refrigerants sold to the automotive aftermarket and to a lesser extent a reduction in the volume of other refrigerants sold. The Company believes that the decline in automotive refrigerants was based on a declining demand for these products. The Company believes the decline in volume of other refrigerants is due to seasonality. The increase in RefrigerantSide® Services was primarily attributable to an increase in the revenue per job sold, which is a consequence of the reorganization of the Company's sales and marketing efforts.

Cost of sales for the six months ended June 30, 2004 was \$5,086,000, a decrease of \$2,509,000 or 33% from the \$7,595,000 reported during the comparable 2003 period. The decrease in cost of sales was primarily due to a reduction in materials cost of refrigerants sold, which is directly related to the reduction in refrigerant revenues described above, and to a lesser extent a reduction in payroll associated with the Company's RefrigerantSide® Services. As a percentage of sales, cost of sales were 62% of revenues for 2004, a decrease from the 71% reported for the comparable 2003 period. The decrease in cost of sales as a percentage of revenues was primarily attributable to a reduction in material costs of refrigerants sold and to a lesser extent a reduction in payroll associated with the Company's RefrigerantSide® Services.

Operating expenses for the six months ended June 30, 2004 were \$2,574,000 a decrease of \$1,146,000 or 31% from the \$3,720,000 reported during the comparable 2003 period. The decrease was primarily attributable to a reduction in selling, general and administrative and reorganization costs due to the Company's reorganization of the Company's RefrigerantSide® Service offering that occurred in May 2003 and a reduction in depreciation and amortization costs.

Other income (expense) for the six months ended June 30, 2004 was (\$101,000), compared to the (\$367,000) reported during the comparable 2003 period. Other income (expense) includes interest expense of \$177,000 and \$285,000 for the comparable six month periods ended June 30, 2004 and 2003, respectively. The decrease in interest expense is primarily attributed to a reduction in outstanding indebtedness. During the 2004 period interest expense was offset by a \$76,000 gain on sale of assets. Other income (expense) of \$82,000 during the 2003 period consisted of finance charges on the prior credit facility of \$99,000 offset by sub-lease income of \$17,000.

No income taxes for the six months ended June 30, 2004 and 2003 were recognized. During the 2004 period no income taxes were recognized on the income before taxes of \$415,000 due to the utilization of net operating loss carry forwards from prior periods. The Company recognized a reserve allowance against the deferred tax benefit for the 2003 losses. The tax benefits associated with the Company's net operating loss carry forwards would be recognized to the extent that the Company recognizes net income in future periods. A portion of the Company's net operating loss carry forwards are subject to annual limitations.

Net income for the six months ended June 30, 2004 was \$415,000 an increase of \$1,356,000 from the \$941,000 net loss reported during the comparable 2003 period. The increase in net income was primarily attributable to an increase in gross profits on the Company's revenues and a decrease in selling, general and administrative and reorganization expenses due to the reorganization of the Company's RefrigerantSide® Service offering that occurred in May 2003.

Liquidity and Capital Resources

At June 30, 2004, the Company had a working capital, which represents current assets less current liabilities, of approximately \$1,336,000, an increase of \$680,000 from the working capital of \$656,000 at December 31, 2003. The increase in working capital is primarily attributable to the net income recognized during the six month period ended June 30, 2004 and proceeds from the issuance of Common Stock.

Principal components of current assets are inventory and trade receivables. At June 30, 2004, the Company had inventories of \$2,184,000, a decrease of \$403,000, or 16% from the \$2,587,000 at December 31, 2003. The decrease in the inventory balance is due to the timing and availability of inventory purchases and the sale of refrigerants. The Company's ability to sell and replace its inventory on a timely basis and the prices at which it can be sold are subject, among other things, to current market conditions and the nature of supplier or customer arrangements and the Company's ability to source CFC refrigerants that are no longer being manufactured (see "Reliance on Suppliers and Customers" and "Seasonality and Fluctuations in Operating Results"). At June 30, 2004, the Company had trade receivables, net of allowance for doubtful accounts, of \$2,853,000, an increase of \$899,000 or 46% from the \$1,954,000 at December 31, 2003. 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.

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The Company has historically financed its working capital requirements through cash flows from operations, the issuance of debt and equity securities and bank and related party borrowings. In recent years, the Company has not financed its working capital requirements through cash flows from operations but rather from issuances of equity securities and bank borrowings. During 2003, the Company completed several initiatives to lower its overall operating cost resulting in the elimination of approximately \$2,000,000 in annual expenses. The full impact of these cost reductions have been recognized through the second quarter of 2004.

Net cash used by operating activities for the six month period ended June 30, 2004, was \$354,000 compared with net cash used by operating activities of \$1,072,000 for the comparable 2003 period. Net cash used by operating activities for the 2004 period was primarily attributable to an increase in trade receivables and accounts payable and accrued expenses offset by the net income for the period and a reduction in inventories.

Net cash used by investing activities for the six month period ended June 30, 2004, was \$30,000 compared with net cash used by investing activities of \$150,000 for the prior comparable 2003 period. The net cash used by investing activities for the 2004 period was due to equipment additions primarily associated with the Company's alliance agreement with the BOC Group.

Net cash used by financing activities for the six month period ended June 30, 2004, was \$7,000 compared with net cash provided by financing activities of \$950,000 for the comparable 2003 period. The net cash used by financing activities for the 2004 period primarily consisted of \$45,000 net proceeds received by the Company from the sale of Common Stock and proceeds from short-term debt of \$90,000, offset by the repayment of long-term debt of \$142,000.

At June 30, 2004, the Company had cash and cash equivalents of \$265,000. The Company continues to assess its capital expenditure needs. The Company may, to the extent necessary, continue to utilize its cash balances to purchase equipment primarily associated with its reclamation facility and with the alliance with the BOC Group. The Company estimates that total capital expenditures during 2004 may range from approximately \$500,000 to \$600,000 and as of June 30, 2004, the Company has expended \$140,000.

On May 30, 2003, Hudson entered into a credit facility with Keltic Financial Partners, LLP ("Keltic") which provides for borrowings of up to \$5,000,000. The facility consists of a revolving line of credit and a term loan and expires on May 30, 2006. Advances under the revolving line of credit may not exceed \$4,600,000 and are limited to (i) 85% of eligible trade accounts receivable and (ii) 50% of eligible inventory. Advances available to Hudson under the term loan may not exceed \$400,000. The facility bears interest at a rate equal to the greater of the prime rate plus 2.0 %, or 6.5%, and was 6.5% at June 30, 2004. Substantially all of Hudson's assets are pledged as collateral for its obligations to Keltic under the credit facility. In addition, among other things, the agreements restrict Hudson's ability to declare

or pay any cash dividends on its capital stock. As of June 30, 2004, Hudson had in the aggregate \$1,656,000 of borrowings outstanding under the Keltic revolving line of credit and \$1,493,000 available for borrowing under the revolving line of credit. In addition, the Company had \$320,000 of borrowings outstanding under its term loan with Keltic.

During 2003, the Company offered for sale its Common Stock through the issuance of rights to its then existing shareholders and offered the remaining unsubscribed shares to the public ("Rights Offering"). The Rights Offering closed on December 19, 2003. As a result of the Rights Offering and the conversion of all of the then existing Convertible Notes in the aggregate principal amount of \$1,660,000, the Company issued an aggregate of 3,833,306 shares of its Common Stock.

On March 30, 1999, the Company completed the sale of 65,000 shares of its Series A Preferred Stock, with a liquidation value of \$100 per share, to Fleming US Discovery Fund III, L.P. and Fleming US Discovery Offshore Fund III, L.P. The gross proceeds from the sale of the Series A Preferred Stock were \$6,500,000.

On February 16, 2001, the Company completed the sale of 30,000 shares of its Series A Preferred Stock, with a liquidation value of \$100 per share, to Fleming US Discovery Fund III, L.P. and Fleming US Discovery Offshore Fund III, L.P. The gross proceeds from the sale of the Series A Preferred Stock were \$3,000,000.

Prior to March 31, 2004, the Company paid dividends, in arrears, on the Series A Preferred Stock, semi annually, either in cash or additional shares, at the Company's option. On March 30, 2004, the Company declared and paid, in-kind, the dividends on the outstanding Series A Preferred Stock and issued 4,455, additional shares of its Series A Preferred Stock in satisfaction of the dividends due. The March 30, 2004 dividend payment represents the final dividend payment on the outstanding Series A Preferred Stock.

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On March 31, 2004, the holders of the Series A Preferred Stock converted all of their shares of the Series A Preferred Stock into Common Stock at a conversion price of \$.79 per share. Upon conversion the holders of the Series A Preferred Stock received 16,397,468 shares of Common Stock.

The Company is continuing to evaluate opportunities to rationalize its operating facilities and its depot network based on ways to reduce costs or to increase revenues. During the first half of 2003, based on evaluations by management, the Company began to consolidate certain of its facilities. Moreover, as the Company begins to implement its sales and marketing strategy to focus on industry rather than geographic markets it may discontinue certain operations, eliminate depot and overhead costs and, in doing so, may incur future charges to exit certain operations.

The Company believes that it will be able to satisfy its working capital requirements for the immediate future from anticipated cash flow from operations and available funds under its credit facility with Keltic. In addition, 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 depots 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 assurances that the Company's proposed or future plans will be successful, and as such, the Company may need to significantly modify its plans or it may require additional capital sooner than anticipated, which capital may not be available.

Inflation

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

Reliance on Suppliers and Customers

The Company's financial performance is in part dependent on its ability to obtain sufficient quantities of virgin and reclaimable refrigerants from manufacturers, wholesalers, distributors, bulk gas brokers, and from other sources within the air conditioning and refrigeration and automotive aftermarket industries, and on corresponding demand for refrigerants. Most of the Company's refrigerant sales are CFC based refrigerants, which are no longer manufactured. To the extent that the Company is unable to obtain sufficient quantities of virgin or reclaimable refrigerants, particularly CFC based refrigerants, in the future, or resell reclaimed refrigerants at a profit, the Company's financial condition and results of operations would be materially adversely affected.

Refrigerants are shipped to customers in various sized cylinders and drums. Recently, the manufacturers of these cylinders and drums have had supply shortages and production delays. To the extent that these manufacturers continue to have supply problems there could be an adverse affect on the Company's ability to sell refrigerants. As a result, the Company's financial condition and results of operations could be materially adversely affected.

During the six month period ended June 30, 2004, no customer accounted for 10% of the Company's revenues. During the six month period ended June 30, 2003, one customer accounted for 10% of the Company's revenues.

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

Seasonality 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 CFC-based refrigeration equipment by domestic users of refrigerants, the rate of expansion of the Company's operations, and by other factors. The Company's business is seasonal in nature with peak sales of refrigerants occurring in the first half of each year. During past years, the seasonal decrease in sales of refrigerants have resulted in additional losses during the second half of the year. Delays 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 there is a similar seasonal element to RefrigerantSide® Service revenues as refrigerant sales and is continuing to assess its seasonal trend.

Item 3 - Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures as of the end of the quarter ended June 30, 2004. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. During the quarter ended June 30, 2004, there were no changes in the Company's internal control over financial reporting that have materially affected, or are

reasonably likely to materially affect, its internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

In June 1998, United Water of New York, Inc. ("United") commenced an action against the Company in the Supreme Court of the State of New York, Rockland County, seeking damages in the amount of \$1.2 million allegedly sustained as a result of alleged contamination of certain of United's wells which are in close proximity to the Company's Hillburn, New York facility.

On April 1, 1999, the Company reported a release at the Company's Hillburn, New York facility of approximately 7,800 lbs. of R-11, as a result of a failed hose connection to one of the Company's outdoor storage tanks allowing liquid R-11 to discharge from the tank into the concrete secondary containment area in which the subject tank was located.

Between April 1999 and May 1999, with the approval of the New York State Department of Environmental Conservation ("DEC"), the Company constructed and put into operation a remediation system at the Company's Hillburn facility to remove R-11 levels in the groundwater under and around the Company's facility.

In July 1999, United amended its complaint in the Rockland County action to allege facts relating to, and to seek damages allegedly resulting from, the April 1, 1999 R-11 release.

In June 2000, the Rockland County Supreme Court approved a settlement of the Rockland County action commenced by United. Under the settlement, the Company paid to United the sum of \$1,000,000 and has been making additional monthly payments in the amount of \$5,000. The final monthly payment was made by the Company in February 2004, satisfying all remaining obligations of the Company to United under the settlement. The Company carries \$1,000,000 environmental impairment insurance per occurrence and in connection with the settlement, exhausted all insurance proceeds available for that occurrence under all applicable policies.

In June 2000, the Company signed an Order on Consent with the DEC regarding all past contamination of the United well field, whereby, the Company agreed to continue operating the remediation system it installed at its Hillburn facility in May 1999, until remaining groundwater contamination has been effectively abated. In May 2001, the Company signed an amendment to the Order on Consent with the DEC, pursuant to which the Company installed one additional monitoring well and modified the Company's existing remediation system to incorporate a second recovery well. The Company is continuing to operate the remediation system pursuant to that Order on Consent.

In May 2000, the Company's Hillburn facility was nominated by the United States Environmental Protection Agency ("EPA") for listing on the National Priorities List ("NPL"), pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980. The Company believes that the agreements reached with the DEC and United, together with the reduced levels of contamination present in United's wells, make such listing unnecessary and counterproductive. The Company submitted opposition to the listing within the sixty-day comment period. In June 2003, the EPA advised the Company that it has no current plans to finalize the process for listing the Hillburn facility on the NPL. The EPA also advised the Company that it will not at this time withdraw the proposal of the Hillburn facility on the NPL.

In October 2001, the Company learned that trace levels of R-11 were detected in one of United's wells that is closest to the Village of Suffern's ("Village") well system. During February 2002, the Village expressed concern over the possibility of R-11 reaching its well system and advised the Company that it was investigating available options to protect its well system. No contamination of R-11 has ever been detected in any of the Village's wells and, as of October 2002, the level of R-11 in the United well closest to the Village was below 1 ppb. In October 2002, the Village advised the Company that it intends to proceed with plans to protect its wells and would look to the Company to reimburse the Village for any costs it may incur. To date, no detailed cost estimate, formal demand or claim has been presented by the Village, however, to the extent the Village proceeds with its plans, the Company may incur additional costs. The Company has reimbursed the Village for approximately \$12,000 of costs incurred to date for additional sampling by the Village of its wells and for minor preparatory work in connection with the Village's plan for protecting its wells.

In February 2003, the Company agreed to extend the statute of limitations applicable to any claims that may be available to Ramapo Land Company ("Ramapo"), the lessor of the Company's Hillburn facility, arising out of the April 1, 1999 incident for an additional two years. In April 2004, Ramapo advised the Company that it had incurred approximately \$62,000 in legal and consulting fees relating to the April 1, 1999 incident and has requested reimbursement from the Company for these costs. There can be no assurance that a claim asserted by Ramapo will not have a material adverse effect on the Company's financial condition or results of operations.

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There can be no assurance that the R-11 will not spread beyond the United's well system and impact the Village of Suffern's wells, or that the ultimate outcome of such a spread of contamination will not have a material adverse effect on the Company's financial condition and results of operations. There can be no assurance that the EPA will not change its current plans and seek to finalize the process of listing the Hillburn facility on the NPL, or that the ultimate outcome of such a listing will not have a material adverse effect on the Company's financial condition and results of operations.

Item 2 - Changes in Securities and Small Business Issuer Purchases of Equity Securities

During the three months ended June 30, 2004, the Company granted options to purchase an aggregate of 17,000 shares of Common Stock to employees pursuant to its Stock Option Plans. With respect to these option grants and the issuance of additional Preferred Stock, the Company relied on the exemption from registration provided by Section 4(2) under the Securities Act of 1933, the ("Act") as transactions by an issuer not involving a public offering and /or Section 2(a) (3) of the Act.

Item 6 - Exhibits and Reports on Form 8-K

(a) The following exhibits are attached to this report:

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

(b) No report on Form 8-K was filed during the quarter ended June 30, 2004.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this Report to be signed in its behalf by the undersigned, thereunto duly authorized.

HUDSON TECHNOLOGIES, INC.

By: /s/ Kevin J. Zugibe August 3, 2004
Kevin J. Zugibe Date
Chairman and
Chief Executive Officer

By: /s/ James R. Buscemi August 3, 2004
James R. Buscemi Date
Chief Financial Officer

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