

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

HUDSON TECHNOLOGIES INC /NY  
Form 10QSB  
May 15, 2003

=====

United States  
Securities and Exchange Commission  
Washington, D.C. 20549

Form 10-QSB

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

For the quarterly period ended March 31, 2003

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 Small Business Issuer as Specified in its Charter)

New York  
(State or Other Jurisdiction of  
Incorporation or Organization)

13-3641539  
(I.R.S. Employer  
Identification No.)

275 North Middletown Road  
Pearl River, New York  
(Address of Principal Executive Offices)

10965  
(ZIP Code)

(845) 735-6000  
(Issuer's Telephone Number, Including Area Code)

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	5,165,020 shares
Class	Outstanding at April 15, 2003

Traditional Small Business Disclosure Format (check one): Yes  No .

=====

Hudson Technologies, Inc.  
Index

Part I.	Financial Information	Page Number
Item 1	- Financial Statements	3
	- Consolidated Balance Sheets	

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

	- Consolidated Statements of Operations	4
	- Consolidated Statements of Cash Flows	5
	- Notes to the Consolidated Financial Statements	6
Item 2	- Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3	- Controls and Procedures	16
Part II.	Other Information	
	Item 1 - Legal Proceedings	17
	Item 2 - Changes in Securities	18
	Item 6 - Exhibits and Reports on Form 8-K	18
Signatures		19

2

### Part I - FINANCIAL INFORMATION

Hudson Technologies, Inc. and subsidiaries  
 Consolidated Balance Sheets  
 (Amounts in thousands, except for share and par value amounts)

	March 31, 2003 -----	December 31, 2002 -----
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 353	\$ 545
Trade accounts receivable - net of allowance for doubtful accounts of \$292 and \$262	3,082	1,971
Inventories	2,985	2,967
Prepaid expenses and other current assets	246	249
	-----	-----
Total current assets	6,666	5,732
Property, plant and equipment, less accumulated depreciation	2,360	2,551
Other assets	145	139
	-----	-----
Total Assets	\$ 9,171 =====	\$ 8,422 =====
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 3,777	\$ 3,278
Short-term debt	3,278	2,582
	-----	-----
Total current liabilities	7,055	5,860
Long-term debt, less current maturities	70	124
Long-term debt - related parties	960	930
	-----	-----
Total Liabilities	8,085	6,914
	-----	-----
Commitments and contingencies		

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

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; issued and outstanding 120,782 and 116,629	12,078	11,663
Common Stock, \$0.01 par value; shares authorized 50,000,000; issued outstanding 5,165,020	52	52
Additional paid-in capital	19,604	20,019
Accumulated deficit	(30,648)	(30,226)
Total Stockholders' Equity	----- 1,086	----- 1,508
Total Liabilities and Stockholders' Equity	\$ 9,171 =====	\$ 8,422 =====

See accompanying Notes to the Consolidated Financial Statements.

3

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

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

	Three month period ended March 31,	
	2003	2002
Revenues	\$ 5,677	\$ 6,111
Cost of Sales	4,037	4,681
Gross Profit	----- 1,640	----- 1,430
Operating expenses:		
Selling and marketing	539	672
General and administrative	1,092	1,065
Depreciation and amortization	243	285
Total operating expenses	----- 1,874	----- 2,022
Operating loss	----- (234)	----- (592)
Other income (expense):		
Interest expense	(188)	(97)
Other income	--	241
Total other income (expense)	----- (188)	----- 144
Loss before income taxes	----- (422)	----- (448)
Income taxes	----- --	----- --

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

Net loss	(422)	(448)
Preferred stock dividends	(218)	(197)
	-----	-----
Available for common shareholders	\$ (640)	\$ (645)
	=====	=====
-----		
Net loss per common share - basic and diluted	\$ (0.12)	\$ (0.13)
	=====	=====
Weighted average number of shares outstanding	5,165,020	5,156,895
	=====	=====

See accompanying Notes to the Consolidated Financial Statements.

4

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

	Three month period ended March 31,	
	2003	2002
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (422)	\$ (448)
Adjustments to reconcile net loss to cash provided (used) by operating activities:		
Depreciation and amortization	243	285
Allowance for doubtful accounts	30	36
Amortization of original issue discount	30	--
Changes in assets and liabilities:		
Trade accounts receivable	(1,142)	(1,069)
Inventories	(18)	16
Prepaid expenses and other current assets	3	72
Other assets	5	1
Accounts payable and accrued expenses	499	1,251
	-----	-----
Cash provided (used) by operating activities	(772)	144
	-----	-----
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	--	203
Additions to patents	(14)	--
Additions to property, plant, and equipment	(49)	(225)
	-----	-----
Cash used by investing activities	(63)	(22)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock - net	--	10
Proceeds from (repayment of) short-term debt - net	754	(285)
Proceeds from long-term debt	--	151

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

Repayment of long-term debt	(111)	(299)
	-----	-----
Cash provided (used) by financing activities	643	(423)
	-----	-----
Decrease in cash and cash equivalents	(192)	(301)
Cash and cash equivalents at beginning of period	545	1,382
	-----	-----
Cash and cash equivalents at end of period	\$ 353	\$ 1,081
	=====	=====
-----		
Supplemental disclosure of cash flow information:		
Cash paid during period for interest	\$ 188	\$ 97
Supplemental schedule of non-cash investing and financing activities:		
In-kind payment of preferred stock dividends	\$ 415	\$ 387

See accompanying Notes to the Consolidated Financial Statements

5

### 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(R) 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, 2002. Operating results for the three month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2003.

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

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

consolidated financial statements include the accounts of wholly-owned subsidiaries Hudson Holdings, Inc. and Hudson Technologies Company.

### Fair value of financial instruments

The carrying values of financial instruments including trade accounts receivable, and accounts payable approximate fair value at March 31, 2003, 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 March 31, 2003 and December 31, 2002.

### 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 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 quarter ended March 31, 2003, two customers accounted for 17% and 11% of the Company's revenues and as of March 31, 2003 there was \$483,000 and \$10,000, respectively, of accounts receivable balances from these customers. During the quarter ended March 31, 2002, one customer accounted for 14% of the Company's revenues and as of March 31, 2002 there was an \$11,000 accounts receivable balance from this customer. 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

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

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. 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.

### 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 current and 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.

### Loss per common and equivalent shares

Loss per common share, Basic, is calculated based on the net loss for the period plus dividends on the outstanding Series A Preferred Stock, \$218,000 and \$197,000 for the quarters ended March 31, 2003 and 2002, 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. The effect of equivalent shares was not dilutive in either 2003 or 2002.

### 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

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

change in the future, the Company could realize liabilities which would have a material adverse affect on operating results and its financial position.

7

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.

The three months ended March 31,	2003	2002
	----	----
Pro forma results (In thousands, except per share amounts)		
Net loss available for common shareholders:		
As reported	\$ (640)	\$ (645)
Total stock based employee compensation expense determined under fair value based method	74	97
	-----	-----
Pro forma	\$ (714)	\$ (742)
Loss per common share basic and diluted:		
As reported	\$ (.12)	\$ (.13)
Pro forma	\$ (.14)	\$ (.14)

Recent accounting pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued FASB statement No. 143, Accounting for Asset Retirement Obligations ("SFAS 143"). SFAS 143 addresses financial reporting for obligations associated with retirement of tangible long-lived assets and the associated retirement costs. SFAS 143 is effective for fiscal years beginning after June 15, 2002.



## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

In April 2002, the FASB issued FASB statement No. 145 ("SFAS 145"), which rescinds FASB statements No. 4, 44 and 64 and amends FASB statement No. 13. SFAS 145 is effective for fiscal years beginning after May 15, 2002.

In June 2002, the FASB issued FASB statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS 146"). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS 146 is effective for fiscal years beginning after December 31, 2002.

In December 2002, the FASB issued FASB statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure ("SFAS 148"), an amendment of SFAS No. 123. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Company plans to continue to use the intrinsic value method for stock-based compensation. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002.

The Company has adopted each of the above pronouncements effective January 1, 2003, except that SFAS No. 148 was adopted as of December 31, 2002, and these adoptions did not have a material impact on the Company's financial position and results of operations.

### Note 2 - Liquidity and going concern

The Company has been substantially dependent on loans from The CIT Group/Business Credit, Inc. ("CIT"), the Company's primary lender, its principal stockholders, and proceeds from the sale of its securities. The credit facility between CIT and the Company was scheduled to expire on April 29, 2003 and the Company has secured an extension of its credit facility through May 30, 2003. During the extension period of April 30, to May 30, 2003 the interest rate is the prime rate plus 3.5%. The Company has not obtained a renewal of this credit facility. Although the Company believes it can obtain replacement financing should CIT decide not to continue its lending relationship with the Company there can be no assurance that it can obtain such financing.

Even if the Company is able to replace its current credit facility with CIT the Company anticipates that it will need to raise additional capital in 2003. No assurances can be made that the Company will be successful in the sales of its securities or in obtaining an extension or renewal of its credit facility to meet the Company's working capital needs. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As discussed above, the Company is dependent on outside sources of financing to fund its working capital needs. This condition gives rise to substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from this uncertainty.

### Note 3 - Dispositions

Effective March 19, 1999, the Company sold 75% of its stock ownership in Environmental Support Solutions, Inc. ("ESS") to one of ESS's founders. The consideration for the Company's sale of its interest was \$100,000 in cash and a six-year 6% interest bearing note in the amount of \$380,000. The Company has recognized as income the portion of the proceeds associated with the note receivable upon the receipt of cash. The Company recognized a valuation

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

allowance for 100% of the note receivable. Subsequent to March 19, 1999, in two separate transactions, ESS redeemed the balance of the Company's stock ownership in ESS and the proceeds from the redemptions were included in other income. Pursuant to an agreement dated January 22, 2002, ESS and the Company agreed to a 16% discount of the outstanding balance on the note receivable. On January 25, 2002, as part of a capital financing completed by ESS, ESS paid the Company \$231,951, representing the discounted balance as of that date, as full satisfaction of the note receivable and as of that date, the Company recognized the proceeds as other income.

### Note 4 - Other income

For the three months ended March 31, 2003, other expense of \$188,000 consisted of interest expense of approximately \$88,000, finance charges associated with the Company credit facility of \$70,000 and amortization of the original issue discount associated with the Company's Convertible Notes with related parties. For the three months ended March 31, 2002, other income of \$144,000 consisted primarily of the prepayment of the remaining balance of the note receivable from ESS and, to a lesser extent, interest income offset by interest expense of \$97,000.

9

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

#### 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), 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 filings 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 judgments, uncertainties and estimations. The Company bases its

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

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 estimations, 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(R) Services. RefrigerantSide(R) 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(R) 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(R) Services represent the Company's long term growth potential. However, in recent periods the Company has not been successful in growing its RefrigerantSide(R) Services revenue. As part of the Company's goal to grow its RefrigerantSide(R) Services business, in 2002, the Company commenced a restructuring of its sales and marketing efforts including hiring a new Vice President of Sales and Marketing. In addition, the Company has been evaluating its sales and marketing strategy and is in the process of focusing on vertical markets rather than geographic markets that had been the strategy with our network of service depots. In the near term, the Company expects that it will incur additional expenses and losses related to the development of its RefrigerantSide(R) Services. In addition,

10

to the extent that the network of service depots does not develop to expected operating levels, or it is not necessary to fulfill the vertical market strategy, the Company may terminate the operations of certain of its service depots.

Sales of refrigerants continue to represent a majority of the Company's revenues. Most of the Company's refrigerant sales are chlorofluorocarbon, or CFC based refrigerants, which are no longer manufactured. In addition, the Company expects that, over time, the demand for CFC based refrigerants will decrease as equipment that utilizes other chemical based refrigerants replaces those units that utilize CFC based refrigerants. To the extent that the Company is unable to

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

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 would be materially adversely affected. In addition, the Company's long-term strategy of growth in revenues generated from RefrigerantSide(R) Services may cause reductions in revenues derived from the sale of refrigerants.

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 possible loss of revenues which would have a material adverse effect on its operating results.

### Results of Operations

Three months ended March 31, 2003 as compared to the three months ended March 31, 2002

Revenues for the three months ended March 31, 2003 were \$5,677,000, a decrease of \$434,000 or 7% from the \$6,111,000 reported during the comparable 2002 period. The decrease in revenues was primarily attributable to a decrease in refrigerant revenues and a decrease in RefrigerantSide(R) Services revenues. The decrease in refrigerant revenues is related to a reduction in the sales prices per pound for certain refrigerants. The decrease in RefrigerantSide(R) Services was primarily a reduction in the number of jobs sold.

Cost of sales for the three months ended March 31, 2003 was \$4,037,000, a decrease of \$644,000 or 14% from the \$4,681,000 reported during the comparable 2002 period. The decrease in cost of sales was primarily due to a reduction in materials cost of refrigerants sold and payroll associated with the Company's RefrigerantSide(R) Services. As a percentage of sales, cost of sales were 71% of revenues for 2003, a decrease from the 77% reported for the comparable 2002 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 months ended March 31, 2003 were \$1,874,000 a decrease of \$148,000 or 7% from the \$2,022,000 reported during the comparable 2002 period. The decrease was primarily attributable to a reduction in sales payroll costs associated with the Company's RefrigerantSide(R) Service offering.

Other income (expense) for the three months ended March 31, 2003 was \$(188,000), compared to the \$144,000 reported during the comparable 2002 period. Other income (expense) includes interest expense of \$188,000 and \$97,000 for the comparable three month periods ended March 31, 2003 and 2002, respectively, offset by other income of \$241,000 for 2002. The increase in interest expense is primarily attributed to additional CIT charges in connection with the Company's credit facility, interest on the Notes and amortization of the original issue discount associated with the Company's convertible notes. Other income during the 2002 quarterly period primarily relates to interest income and proceeds from the prepayment of the note receivable from ESS.

No income taxes for the three months ended March 31, 2003 and 2002 were recognized. The Company recognized a reserve allowance against the deferred tax benefit for the 2003 and 2002 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 loss for the three months ended March 31, 2003 was \$422,000 a decrease of

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

\$26,000 or 6% from the \$448,000 net loss reported during the comparable 2002 period. The decrease in net loss was primarily attributable to an increase in gross profit, attributable to a reduction in materials cost of refrigerant sales; and a decrease in sales payroll costs, offset by the non-recurring gain of \$232,000 from the prepayment of the note receivable from ESS in 2002.

11

### Liquidity and Capital Resources

At March 31, 2003, the Company had a working capital deficit, which represents current assets less current liabilities, of approximately \$389,000, an increase of \$261,000 from working capital deficit of \$128,000 at December 31, 2002. The increase in the working capital deficit is primarily attributable to the net loss incurred during the quarter ended March 31, 2003.

Principal components of current assets are inventory and trade receivables. At March 31, 2003, the Company had inventories of \$2,985,000, an increase of \$18,000 or 1% from the \$2,967,000 at December 31, 2002. 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. At March 31, 2003, the Company had net trade accounts receivable of \$3,082,000, an increase of \$1,111,000 or 56% from the \$1,971,000 at December 31, 2002. The Company's trade accounts receivable are concentrated with various wholesalers, brokers, contractors and end-users within the refrigeration industry that are primarily located in the continental United States, and the increase is related to seasonal revenue fluctuations.

The Company has historically financed its working capital requirements through cash flows from operations, the issuance of debt and equity securities, 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. In order for the Company to finance its working capital requirements through cash flows from operations the Company must reduce its operating losses. There can be no assurances that the Company will be successful in lowering its operating losses, in which case the Company will be required to fund its working capital requirements from additional issuances of equity securities and/or additional bank borrowings. Based on the current investment environment there can be no assurances that the Company would be successful in raising additional capital. The inability to raise additional capital could have a material adverse effect on the Company. Furthermore, the inability of the Company to renew or replace its existing credit facility with CIT at the expiration of the term of the current facility on May 30, 2003 would have a material adverse effect on the Company's operations and financial condition.

Net cash used by operating activities for the quarter ended March 31, 2003, was \$772,000 compared with net cash provided by operating activities of \$144,000 for the comparable 2002 period. Net cash used by operating activities was primarily attributable to the net loss for the 2003 period and an increase in trade receivables offset by an increase in trade payables.

Net cash used by investing activities for the quarter ended March 31, 2003, was \$63,000 compared with net cash used by investing activities of \$22,000 for the prior comparable 2002 period. The net cash used by investing activities was due to equipment additions primarily associated with the Company's depot network, as well as additions to patents.

Net cash provided by financing activities for the quarter ended March 31, 2003,

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

was \$643,000 compared with net cash used by financing activities of \$423,000 for the comparable 2002 period. The net cash provided by financing activities for the 2003 period primarily consisted of \$754,000 of advances from the Company's credit facility with CIT, offset by the repayment of long term debt of \$111,000.

At March 31, 2003, the Company had cash and cash equivalents of \$353,000. 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 RefrigerantSide(R)Service offering and consolidation of its reclamation facilities. The Company estimates that capital expenditures during 2003 may range from approximately \$500,000 to \$700,000.

The Company has entered into a credit facility with CIT, which provides for borrowings to the Company of up to \$6,500,000. The facility requires minimum borrowings of \$1,250,000. The facility provides for a revolving line of credit and a term loan. Advances under the revolving line of credit are limited to (i) 80% of eligible trade accounts receivable and (ii) 50% of eligible inventory (which inventory amount shall not exceed 200% of eligible trade accounts receivable or \$3,250,000). As of March 31, 2003, the Company had availability under its revolving line of credit of approximately \$265,000. Advances available to the Company under the term loan are based on existing fixed asset valuations and future advances under the term loan of up to an additional \$1,000,000 are based on future capital expenditures. As of March 31, 2003, the Company had approximately \$256,000 outstanding under its term loans and \$2,788,000 outstanding under its revolving line of credit, and due to the expiration of the credit facility in May 2003, all such amounts are reflected on the Company's March 31, 2003 Balance Sheet as current liabilities. The facility bore interest at the prime rate plus 1.5%, 5.75% at March 31, 2003, and substantially all of the Company's assets are pledged as collateral for obligations to CIT. In addition, among other things, the agreements restrict the Company's ability to

12

declare or pay any dividends on its capital stock. The Company has obtained a waiver from CIT to permit the payment of dividends on its Series A Preferred Stock. The credit facility was initially scheduled to expire on April 29, 2003. The Company has secured an extension of the credit facility with CIT through May 30, 2003, bearing interest during the extension period of prime plus 3.5%.

The Company is currently in negotiations with CIT regarding a possible additional extension of the term of the credit facility or the entering into of a new credit facility, and is also seeking alternate sources of financing. While the Company believes that it will be able to obtain replacement financing, there can be no assurance that CIT will continue to lend funds to the Company after the expiration of the current credit facility or that the Company will be able to obtain financing from another source should CIT decide not to continue providing financing to the Company. However, even if the Company is able to obtain replacement financing it may be on terms that are less favorable to the Company than the current CIT facility. A failure of the Company to obtain adequate financing from CIT or an alternate source after the expiration of the current CIT credit facility would have a material adverse effect on the Company's operations and financial condition. As a result of this uncertainty, the Company's independent auditors added an explanatory paragraph to their independent auditors' report included in the Company's filing on Form 10-KSB regarding the Company's ability to continue as a going concern.

Effective March 19, 1999, the Company sold 75% of its stock ownership in ESS to one of ESS's founders. The consideration for the Company's sale of its interest was \$100,000 in cash and a six-year 6% interest bearing note in the amount of \$380,000. The Company has recognized as income the portion of the proceeds

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

associated with the note receivable upon the receipt of cash. This sale did not have a material effect on the Company's financial condition or results of operations. Effective October 11, 1999, the Company sold to three of ESS's employees an additional 5.4% ownership in ESS. The Company received \$37,940 from the sale of this additional ESS stock. Effective April 18, 2000, ESS redeemed the balance of the Company's stock ownership in ESS. The Company received cash in the amount of \$188,000 from the redemption. Pursuant to an agreement dated January 22, 2002, ESS and the Company agreed to a 16% discount of the outstanding balance on the note receivable. On January 25, 2002, as part of a capital financing completed by ESS, ESS paid the Company \$231,951, representing the discounted balance as of that date, as full satisfaction of the note receivable and as of that date the Company recognized the proceeds as other income.

In November 2002, the Company consummated the private sale of unsecured 12% subordinated promissory notes ("Bridge Notes") to a limited number of purchasers, for which it received gross proceeds of \$655,000. The Bridge Notes were for a term of one year and were subordinate in payment to the Company's obligations under its credit facility with CIT. In accordance with the terms of the Bridge Notes, each of the purchasers, at their option, elected to defer quarterly interest payments which were to be added to the principal amount of the Bridge Notes as of each interest payment date and interest would accrue on the principle and any unpaid interest at 12% per annum. The Bridge Notes automatically exchanged for unsecured 10% subordinated promissory notes ("Exchange Notes"), upon approval of such exchange by the Company's shareholders, which approval was obtained at the annual meeting on December 20, 2002.

Effective December 2002, the Company consummated the private sale of unsecured 10% subordinated promissory notes ("Convertible Notes") to a limited number of purchasers, for which it received gross proceeds of \$495,000. At or about the same time, the Bridge Notes were cancelled and exchanged for the Exchange Notes in a principal amount equal to the outstanding principal amount of the Bridge Notes immediately prior to the exchange together with accrued and unpaid interest thereon. As of December 20, 2002, the Exchange Notes and the Convertible Notes were identical in terms and together are referred herein as the ("Notes"). The Notes have a term of two years and earn interest at an annual rate of 10% payable quarterly in arrears. Holders of the Notes had the one time option to elect to either receive payments of interest on a quarterly basis, subject to limitations described below, or defer quarterly interest payments, in which case, interest would be added to the outstanding amount of the Notes on each quarterly payment date and accrue interest at the then effective interest rate of the Notes. The Notes are unsecured and subordinate in payment to the Company's obligations under its credit facility with CIT. The Notes may not be prepaid in cash by the Company without the prior consent of CIT and payment of interest, if any, in cash on any scheduled quarterly interest payment date is limited to an aggregate of \$20,000 per calendar year. Holders of the Notes have the right to convert all or a portion of the outstanding principal balance, and any accrued interest thereon, to Common Stock of the Company, upon, but not prior to, the first anniversary of the issuance of the Notes at the conversion rate of \$.79 per share.

On April 15, 2003, the Company issued an additional \$500,000 principal amount of Convertible Notes to the holders of the Series A Preferred Stock. The April 15, 2003 note issuance is identical to the December 2002 issuance, except that the conversion rate of these Convertible Notes is \$1.41 per share. The Convertible Notes issued in April 2003 are included in the term "Notes" as used herein.

The conversion rate of the Notes is subject to adjustment on a full ratchet basis (i.e., if the Company issues any stock at a price less than the conversion rate, the conversion rate for all shares issuable upon conversion of the Notes will be adjusted downward to such price) in certain events including the

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

Company's issuance of Common Stock, warrants or rights to purchase Common Stock (except for shares subject to stock options under or reserved for option grants under any shareholder approved Stock Option Plan or upon exercise or conversion of options, warrants or other exercisable or exchangeable equity or debt securities outstanding immediately prior to the issuance of the Notes) or securities convertible into Common Stock in each case for a consideration per share which is less than the then-effective conversion

13

rate. In addition, the conversion rate is subject to an appropriate adjustment in the event of: (i) any subdivisions, combinations and reclassifications of the Company's Common Stock; (ii) any payment, issuance or distribution by the Company to its stockholders of a stock dividend; (iii) the consolidation or merger of the Company with or into another corporation whereby the Company is not the surviving entity; or (iv) the sale by the Company of substantially all of its assets.

The Notes provide that in the event of an equity offering by the Company at any time prior to the first anniversary of the issuance of the Notes, for gross proceeds of not less than \$2 million (inclusive of the application of all outstanding principal and interest of the Notes) (the "Equity Offering"), all outstanding principal and interest, if any, on the Notes shall be either (i) applied to the purchase of equity securities in the Equity Offering at the public offering purchase price, or (ii) converted into restricted shares of Common Stock at the then effective conversion rate. Holders of the Notes have the right to determine, to the extent that securities are legally available for purchase in the Equity Offering, whether to apply the Notes to acquire such equity securities sold in the Equity Offering or convert the Notes into Common Stock; provided, however, that in the event that all or a portion of outstanding principal and interest, if any, of the Notes exceeds the number of equity securities available in the Equity Offering, the balance of the Notes not applied to the purchase of equity securities will be converted into restricted shares of Common Stock at the then-effective conversion rate.

In April 2003, holders of the Convertible Notes issued in December 2002 holding an aggregate principal amount of \$495,000 entered into agreements with the Company whereby the holders agreed to modify the conversion rate of their Convertible Notes to the modified conversion rate of \$1.13 (the average closing sale price of the Company's Common Stock as reported on the NASDAQ Small Cap Market for the five business days immediately preceding the execution of the modification agreements); provided further, that, in the event of an Equity Offering by the Company prior to the first anniversary of the issuance of the Convertible Notes, at a public offering price (which includes the exercise price of stock purchase rights offered in the Equity Offering) below the \$1.13 modified conversion rate but in excess of \$.79, the conversion rate of the Convertible Notes will be adjusted to not less than the public offering price.

The Company is obligated to issue to the holders of the Notes, on the earlier of (a) the first anniversary of their respective date of issuance, or (b) the consummation by the Company of an Equity Offering, warrants to purchase an aggregate number of shares of Common Stock equal to 10% of the number of shares of Common Stock into which the Notes were convertible at their respective date of issuance. Each warrant will be exercisable to purchase one share of Common Stock for a period of five years from issuance at an exercise price equal to 110% of the lesser of (i) the conversion rate of the Notes as of their respective date of issuance, or (ii) the conversion rate of the Notes on the date of issuance of the warrants. The exercise price of the warrants will be subject to the anti-dilution adjustment on terms substantially similar to anti-dilution adjustment of the conversion rate of the Notes. As of December 20,



## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

2002, the Company has recognized an original issue discount of \$220,000, in connection with the obligation to issue the warrants.

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. The Series A Preferred Stock currently converts to Common Stock at a price of \$2.375 per share, which was 27% above the closing market price of Common Stock on March 29, 1999.

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. The Series A Preferred Stock currently converts to Common Stock at a price of \$2.375 per share, which was 23% above the closing market price of Common Stock on February 15, 2001.

The Series A Preferred Stock provides for anti-dilution adjustment of the conversion price in the event of the subsequent offering by the Company of securities for consideration per share less than the then effective conversion price of the Series A Preferred Stock. At the direction of the NASDAQ Stock Market, Inc., a minimum of \$1.78 per share (the "Conversion Price Floor"), below which the conversion price of the Series A Preferred Stock could not be adjusted, had been instituted by the Company and the holders of the Series A Preferred Stock by amendment to the designation of the Series A Preferred Stock, and at the same time the Company agreed not to offer securities for consideration per share less than the Conversion Price Floor without the consent of the holders of the Series A Preferred Stock. Subsequently, in consideration for the consent of the holders of the Series A Preferred Stock to the Company's engagement in the private offering of the Notes at a conversion price below the Conversion Price Floor, the stockholders of the Company, at the annual meeting on December 20, 2002, voted in favor of a proposal to remove the Conversion Price Floor and the designation of the Series A Preferred Stock was amended accordingly. Although the holders of the Series A Preferred

14

Stock agreed to waive their rights to an immediate downward adjustment of the current \$2.375 conversion price of the Series A Preferred Stock in connection with the issuance of the Notes, any subsequent conversion of the Notes will result in a downward adjustment of the conversion price of the Series A Preferred Stock to equal the conversion price of the Notes. Consequently, upon conversion of the Exchange Notes at the \$.79 per share conversion price the anti-dilution provisions of the Series A Preferred Stock will cause the conversion price of the Series A Preferred Stock to adjust downward to the \$.79 per share. Assuming that the Series A Preferred Stock converts to common stock at a conversion price of \$.79 per share and based upon 120,782 shares of Series A Preferred Stock issued as of March 31, 2003, the holders of the Series A Preferred Stock would receive 15,288,860 shares of Common Stock. Similarly, the conversion price of such Series A Preferred Stock may be subsequently adjusted to equal the consideration received by the Company in connection with any subsequent issuance of securities below the current \$2.375 conversion price.

The Series A Preferred Stock has voting rights on an as-if converted basis. The number of votes applicable to the Series A Preferred Stock is equal to the number of shares of Common Stock into which the Series A Preferred Stock is then convertible. The designation of the Series A Preferred Stock provided for a proxy granted by the holders of the Series A Preferred Stock in favor of certain

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

of the Company's officers to vote all shares of Common Stock into which the Series A Preferred Stock converts (including any additional shares subsequently acquired by such holders) in excess of 29% of the votes entitled to be cast by the Series A Preferred Stock holders. As noted above, in consideration for consent of the holders of the Series A Preferred Stock to the Company's engagement in the private offering of the Notes at a conversion rate below the Conversion Price Floor, the stockholders of the Company, at the annual meeting on December 20, 2002, voted in favor of a proposal to remove the proxy from the designation of the Series A Preferred Stock and the designation of the Series A Preferred Stock was amended accordingly. The Series A Preferred Stock carries a dividend rate of 7%, which will increase to 16%, if the stock remains outstanding on or after March 31, 2004. The Company used the net proceeds from the issuance of the Series A Preferred Stock to expand its RefrigerantSide(R) Services business and for working capital purposes.

The Company pays 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, 2003 the Company declared and paid, in-kind, the dividends on the outstanding Series A Preferred Stock and issued 4,153 additional shares of its Series A Preferred Stock in satisfaction of the dividends due. The Company may redeem the Series A Preferred Stock on March 31, 2004 either in cash or shares of Common Stock valued at 90% of the average trading price of the Common Stock for the 30 days preceding March 31, 2004. In addition, the Company may call the Series A Preferred Stock if the market price of its Common Stock is equal to or greater than 250% of the conversion price and the Common Stock has traded with an average daily volume in excess of 20,000 shares for a period of thirty consecutive days.

The Company has provided certain registration, preemptive and tag along rights to the holders of the Series A Preferred Stock. The holders of the Series A Preferred Stock, voting as a separate class, have the right to elect up to two members to the Company's Board of Directors, or at their option, to designate up to two advisors to the Company's Board of Directors who will have the right to attend and observe meetings of the Board of Directors. Currently, the holders have elected one member to the Board of Directors

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. We expect that this evaluation will result in a consolidation of certain of our facilities. The Company is also considering whether to reduce or eliminate certain of its operations that have not performed to its expectations. Moreover, as we begin to implement our sales and marketing strategy to focus on industry rather than geographic markets we 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 CIT and any replacement facility it enters into after the expiration of the current term of the CIT facility. Although the Company believes it can obtain replacement financing for the CIT facility there can be no assurance that it will do so. Moreover, even if the Company obtains replacement financing for the CIT facility it believes that it will need additional financing during 2003 to support its continuing operations. 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.

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

The Company is currently seeking to obtain additional financing through the issuance of debt and/or equity securities, which may include a Rights offering of Common Stock by the Company to its Stockholders. There can be no assurance, however, that the Company will be able to obtain any

15

additional capital on commercially reasonable terms or at all, and its inability to do so would have a material adverse affect on the Company.

### 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. To the extent that the Company is unable to obtain sufficient quantities of virgin or reclaimable 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.

During the quarter ended March 31, 2003, two customers accounted for 17% and 11% of the Company's revenues. During the quarter ended March 31, 2002, one customer accounted for 14% 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 or 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. With respect to the Company's RefrigerantSide(R) Services, to date, the Company has not identified any seasonal pattern. However, the Company could experience a similar seasonal element to this portion of its business in the future.

### Item 3 - Controls and Procedures

Within the 90-day period prior to the filing of this report, 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

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure 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. Subsequent to the date of their evaluation, there were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

16

### 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. The cost of this remediation system was \$100,000.

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, which payments are expected to continue through December 2003. The proceeds of the settlement were required to be used to fund the construction and operation by United of a new remediation tower, as well as for the continuation of temporary remedial measures implemented by United that have successfully contained the spread of R-11. The remediation tower was completed in March 2001, and is designed to treat all of United's impacted wells and restore the water to New York State drinking water standards for supply to the public. 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

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

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 Water, together with the reduced levels of contamination present in the United Water wells, make such listing unnecessary and counterproductive. The Company submitted opposition to the listing within the sixty-day comment period. To date, no final decision has been made by the EPA regarding the proposed listing. The Company has requested that the EPA remove the Hillburn facility from nomination for the NPL due to the continued reduction of contamination.

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 has 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 it intends to proceed with plans to protect its wells and could 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 \$10,000 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.

17

In February 2003, the Company agreed to extend the statute of limitations applicable to any claims that may be available to Ramapo Land Company, the lessor of the Hillburn facility, arising out of the April 1, 1999 incident for an additional two years. To date, no claims against the Company have been asserted or threatened by Ramapo Land Company.

There can be no assurance that the R-11 will not spread beyond the United Water 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 Company's opposition to the EPA's listing of the Company's Hillburn facility on the NPL will be successful, 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. Furthermore, there can be no assurance that Ramapo Land Company will not assert any claim against the Company, or that any such claim will not have a material adverse effect on the Company's financial condition and results of operations.

### Item 2 - Changes in Securities

During the three months ended March 31, 2003, the Company granted options to purchase an aggregate of 50,000 shares of Common Stock to an employee, board members and holders of the Series A Preferred Stock pursuant to its 1997 Stock Option Plan. On March 30, 2003, the Company issued a total of 4,153 additional shares of its Series A Preferred Stock to the holders thereof in satisfaction of

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

the dividends then due. With respect to these grants and issuances, 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:

99.1 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

99.2 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 March 31, 2003.

18

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 May 15, 2003

-----  
Kevin J. Zugibe Date  
Chairman and  
Chief Executive Officer

By: /s/ James R. Buscemi May 15, 2003

-----  
James R. Buscemi Date  
Chief Financial Officer

19

Hudson Technologies, Inc.  
Certification of Principal Executive Officer

I, Kevin J. Zugibe, Chief Executive Officer and Chairman of the Board, of Hudson Technologies, Inc., certify that:

- 1. I have reviewed this quarterly report on Form 10-QSB of Hudson Technologies, Inc.;
- 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Kevin J. Zugibe

-----  
Kevin J. Zugibe  
Chief Executive Officer and  
Chairman of the Board

Hudson Technologies, Inc.  
Certification of Chief Financial Officer

## Edgar Filing: HUDSON TECHNOLOGIES INC /NY - Form 10QSB

I, James R. Buscemi, Chief Financial Officer, of Hudson Technologies, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Hudson Technologies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
7. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
8. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - b) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - d) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - e) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
9. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - c) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - d) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
10. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003



/s/ James R. Buscemi

-----  
James R. Buscemi  
Chief Financial Officer