

HUDSON TECHNOLOGIES INC /NY
Form 10KSB
March 28, 2006

UNITED STATES

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-KSB

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

For the fiscal year ended December 31, 2005

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.

(Name of small business issuer 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

(Address of Principal Executive Offices)

10965

(Zip Code)

Issuer's telephone number

(845) 735-6000

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$0.01 par value

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act [].

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 []**.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. **[X]**

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

The Issuer's revenues for the fiscal year ended December 31, 2005 were \$19,223,000

The aggregate market value of the Issuer's Common Stock held by non-affiliates as of March 6, 2006 was approximately \$10,042,000. As of March 6, 2006, there were 25,892,974 shares of the Issuer's Common Stock outstanding.

Documents incorporated by reference: **None**

Hudson Technologies, Inc.

Index

<u>Part</u>	<u>Item</u>	<u>Page</u>
Part I.	Item 1 - Description of Business	3
	Item 2 - Description of Property	9
	Item 3 - Legal Proceedings	10
	Item 4 - Submission of Matters to a Vote of Security Holders	11
Part II.	Item 5 - Market for Common Equity and Related Stockholder Matters	12
	Item 6 - Management's Discussion and Analysis of Financial Condition and Results of Operations	13
	Item 7 - Financial Statements	17
	Item 8 - Changes in and Disagreements with Accountants on Accounting	17

and Financial Disclosure

Item 8A - Controls and Procedures	17
Item 8B - Other information	17
Part III. Item 9 - Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act	18
Item 10 - Executive Compensation	20
Item 11 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	24
Item 12 - Certain Relationships and Related Transactions	26
Item 13 - Exhibits	26
Item 14 - Principal Accountant Fees and Services	28
Signatures	29
Financial Statements	30

Page 2

Part I

Item 1. Description of Business

General

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) refrigerant management services consisting primarily of reclamation of refrigerants. The Company operates through its wholly-owned subsidiary, Hudson Technologies Company.

The Company's executive offices are located at 275 North Middletown Road, Pearl River, New York and its telephone number is (845) 735-6000.

Industry background

The production and use, in the United States, of refrigerants containing chlorofluorocarbons ("CFCs") and hydrochlorofluorocarbons ("HCFCs"), the most commonly used refrigerants, are subject to extensive and changing regulation under the Clean Air Act (the "Act"). The Act, which was amended during 1990 in response to evidence linking the use of CFCs and damage to the earth's ozone layer, prohibits any person in the course of maintaining, servicing, repairing and disposing of air conditioning or refrigeration equipment, to knowingly vent or otherwise release or dispose of ozone depleting substances used as refrigerants. That prohibition also applies to substitute, non-ozone depleting refrigerants. The Act further requires the recovery of refrigerants used in residential, commercial and industrial air conditioning and refrigeration systems, and, effective January 1, 1996, prohibited production of CFC refrigerants and limited the production of HCFC refrigerants. Additionally, effective January 2004, the Act further

limited the production of HCFC refrigerants, and federal regulations were enacted which impose limitations on the importation of certain virgin HCFC refrigerants. Under the Act, production of certain HCFC refrigerants is scheduled to be phased out by the year 2020, and production of all HCFC refrigerants is scheduled to be phased out by 2030. Under the Act, owners, operators and companies servicing cooling equipment are responsible for the integrity of the systems, regardless of the refrigerant being used, and for the responsible management of refrigerant.

Products and Services

From its inception, the Company has sold refrigerants, and has provided refrigerant reclamation and management services that are designed to preserve refrigerants, thereby protecting the environment from ozone depletion. In addition, the reclamation process allows the refrigerant to be re-used thereby eliminating the need to manufacture additional refrigerant and eliminating the corresponding impact to the environment associated with manufacturing. Today, these offerings represent most of the Company's revenues. During the last six years, the Company has created alternative solutions to reactive and preventative maintenance procedures that are performed on commercial and industrial refrigeration systems. These services, known as RefrigerantSide® Services, compliment the Company's refrigerant sales and refrigerant reclamation and management services. In addition, the Company has developed Performance Optimization services that identify inefficiencies in the operation of air conditioning and refrigeration systems and assists companies to improve the efficiency of their systems and save energy. The Company believes that its RefrigerantSide® Services, including Performance Optimization services represent the Company's long term growth potential. Each of the Company's products and services are more fully described below.

RefrigerantSide® Services

The Company provides decontamination and recovery services that are performed at a customer's site through the use of portable, high volume, high-speed proprietary equipment, including its patented Zugibeast® system. Certain of these RefrigerantSide® Services, which encompass system decontamination, and refrigerant recovery and reclamation are also proprietary and are covered by process patents.

In addition to the decontamination and recovery services previously described, the Company also provides predictive and diagnostic services for its customers. The Company offers diagnostic services that are intended to predict potential problems in air conditioning and refrigeration systems before they occur. The Company's Chiller Chemistry™ offering integrates several fluid tests of an operating system and integrates the laboratory results into an engineering report providing its customers with an understanding of the current condition of the fluids, the cause for any abnormal findings and the potential consequences if the abnormal findings are not remediated. ChillSmart™ combines the diagnostic information of Chiller Chemistry with a detailed performance evaluation for an operating refrigeration system and recommendations for eliminating any inefficiencies that may have been discovered.

Page 3

In 2003, the Company was awarded an United States patent for its Performance Optimization System, which is a system for measuring, modifying and improving the efficiency of energy systems, including air conditioning and refrigeration systems, in industrial and commercial applications. Hudson's Performance Optimization Services are able to identify specific inefficiencies in the operation of refrigeration systems and, when used in concert with Hudson's RefrigerantSide® Services, can increase the efficiency of the operating systems thereby reducing energy usage and costs. The Company's services help its customers' identify energy-efficient solutions that provide cost savings. These inefficiencies require power generating companies to produce more energy and, in many instances increase CO₂ emissions to produce the excess energy. Consequently, not only is Hudson's reclamation system beneficial to the environment, but Hudson's Performance Optimization Services recommendations are also designed to achieve an overall reduction in CO₂ emissions. The Company's Performance Optimization Services have allowed the Company to become an Energy Star® Service and Product Provider Partner. The Company's Performance Optimization System can be customized to a particular customer's refrigeration system, such as at an industrial facility

that utilizes refrigeration in its manufacturing processes, or offered as a stand alone product that can be used with air conditioning and packaged refrigeration systems, such as a comfort cooling application in large office buildings. When the Company combines its Performance Optimization System with its Chiller Chemistry™ the Company calls this combined offering ChillSmart™.

Refrigerant Sales

The Company sells reclaimed and virgin (new) refrigerants to a variety of customers in various segments of the air conditioning and refrigeration industry. Virgin, non CFC refrigerants, including HCFC refrigerants, are purchased by the Company from several suppliers and resold by the Company, typically at wholesale. The Company continues to sell reclaimed CFC based refrigerants, which are no longer manufactured. The Company regularly purchases used or contaminated refrigerants, some of which are CFC based, from many different sources, which refrigerants are then reclaimed, using the Company's high volume proprietary reclamation equipment, and resold by the Company.

Refrigerant Management Services

The Company provides a complete offering of refrigerant management services, which primarily include reclamation of refrigerants, laboratory testing, through the Company's Air Conditioning and Refrigeration Institute ("ARI") certified lab, and banking (storage) services tailored to individual customer requirements. Hudson also separates "crossed" (i.e. commingled) refrigerants and provides re-usable cylinder repair and hydrostatic testing services.

Hudson's Network

Hudson operates from a network of facilities located in:

Auburn, Washington	--RefrigerantSide® Service depot
Baton Rouge, Louisiana	--RefrigerantSide® Service depot
Champaign, Illinois	--Reclamation and separation of refrigerants and cylinder refurbishment center; RefrigerantSide® Service depot
Charlotte, North Carolina	--RefrigerantSide® Service depot
Fremont, New Hampshire	--Telemarketing office
Hillburn, New York	--RefrigerantSide® Service depot
Pearl River, New York	--Company headquarters and administration offices
Strategic Alliances	

In January 1997, the Company entered into an agreement with E.I. DuPont de Nemours and Company ("DuPont"), pursuant to which the Company provides recovery, reclamation, separation, packaging and testing services directly to DuPont for marketing through DuPont's Authorized Distributor Network. The agreement expires February 28, 2008 and is subject to earlier termination, as defined in the agreement, by either party.

The Company's sales and marketing efforts for RefrigerantSide® Services business is focused on customers that the Company believes most readily appreciate and understand the value that is provided by its RefrigerantSide® Service offering. Moreover, to maintain its current ability to quickly respond to customer service requests throughout the United States, the Company intends to pursue the creation of additional strategic alliances with companies that service larger industrial customers in targeted industries, which, if consummated, would enable the Company to (i) co-locate its equipment with these strategic partners and (ii) utilize these partners' sales and marketing resources to offer their customers the Company's RefrigerantSide® Services.

The Company believes that the international market for refrigerant reclamation, sales and services is equal in size to the United States market for those sales and services. In furtherance of the Company's efforts to expand its presence outside the United States, in June 2003 the Company entered into an exclusive global technology and marketing

agreement with the BOC Group PLC ("BOC Group"), a

Page 4

worldwide industrial gases, vacuum technologies and distribution services company that serves two million customers in more than 50 countries. Under the agreement, the Company has licensed its RefrigerantSide® Services technology to BOC Group, and the Company has agreed to enter into separate supplemental agreements with certain BOC Group affiliate companies, pursuant to which the Company will license its RefrigerantSide® Services technology and the use of its related proprietary equipment to each BOC Group affiliate in return for a license fee payable to the Company by the BOC Group affiliate in annual installments during the course of that supplemental agreement and royalty payments to the Company based on revenues derived by the BOC Group affiliate from the performance of RefrigerantSide® Services and other sales licensed from the Company. The arrangement is specifically aimed at marketing and developing the Company's RefrigerantSide® and other performance optimization services in over 20 countries outside the United States. Currently, the Company has executed two separate supplemental agreements with BOC Group affiliates covering the United Kingdom and the Republic of South Africa. The agreement with the BOC Group is, and each supplemental agreement with a BOC Group affiliate will be, for an initial term of seven years and may be further extended for an initial period of three years and thereafter on an open-ended basis unless earlier terminated by either party upon six months prior written notice.

Suppliers

The Company's financial performance and its ability to sell refrigerants is in part dependent on its ability to obtain sufficient quantities of virgin, non CFC based refrigerants from manufacturers and other suppliers and reclaimable refrigerants, including non CFC and CFC based refrigerants, from wholesalers, distributors, bulk gas brokers and from other sources within the air conditioning, refrigeration and automotive aftermarket industries, and on corresponding demand for refrigerants. The Company's refrigerant sales include CFC based refrigerants, which are no longer manufactured. Additionally, the Company's refrigerant sales include non CFC based refrigerants, including HCFC refrigerants. Effective January 1, 1996, the Act limits the production of HCFC refrigerants, which production was further limited in January 2004. Federal regulations enacted in January 2004 also imposed limitations on the importation of certain HCFC refrigerants. Under the Act, the production of certain HCFC refrigerants is scheduled to be phased out by the year 2020 and production of all HCFC refrigerants is scheduled to be phased out by the year 2030. Notwithstanding the limitations imposed by and under the Act, the Company believes that sufficient quantities of new and used refrigerants will continue to be available to it at a reasonable cost for the foreseeable future. To the extent the Company is unable to source sufficient quantities of refrigerants to support its refrigerant sales, the Company's financial condition and results of operations would be materially adversely affected.

Customers

The Company provides its services to commercial, industrial and governmental customers, as well as to refrigerant wholesalers, distributors, contractors and to refrigeration equipment manufacturers. Agreements with larger customers generally provide for standardized pricing for specified services.

For the year ended December 31, 2005 one customer accounted for 12% and one customer accounted for 11% of the Company's revenue. For the year ended December 31, 2004 one customer accounted for 12% of the Company's revenues.

Marketing

Marketing programs are conducted through the efforts of the Company's executive officers, Company sales personnel, and third parties. Hudson employs various marketing methods, including direct mailings, technical bulletins, in-person solicitation, print advertising, response to quotation requests and the internet (www.hudsontech.com). Information in

the Company's website is not part of this report.

The Company's sales personnel are compensated on a combination of a base salary and commission. The Company's executive officers devote significant time and effort to customer relationships.

Competition

The Company competes primarily on the basis of the performance of its proprietary high volume, high-speed equipment used in its operations, the breadth of services offered by the Company, including proprietary RefrigerantSide® Services and other on-site services and price, particularly with respect to refrigerant sales.

The Company competes with numerous regional and national companies, which provide refrigerant reclamation services, as well as market reclaimed and virgin refrigerants. Certain of these competitors possess greater financial, marketing, distribution and other resources for the sale and distribution of refrigerants than the Company and, in some instances, provide services or products over a more extensive geographic area than the Company.

Hudson's RefrigerantSide® Services provide new and innovative solutions to certain problems within the refrigeration industry and as such the demand and market acceptance for these services are subject to uncertainty. Competition for these services primarily consists

Page 5

of traditional methods of solving the industry's problems. The Company's marketing strategy is to educate the market place that its alternative solutions are available and that RefrigerantSide® Services are superior to traditional methods. The market acceptance for these services are subject to uncertainty.

Insurance

The Company carries insurance coverage that it considers sufficient to protect the Company's assets and operations. The Company currently maintains general commercial liability insurance and excess liability coverage for claims up to \$7,000,000 per occurrence and \$8,000,000 in the aggregate. The Company attempts to operate in a professional and prudent manner and to reduce potential liability risks through specific risk management efforts, including ongoing employee training.

The refrigerant industry involves potentially significant risks of statutory and common law liability for environmental damage and personal injury. The Company, and in certain instances, its officers, directors and employees, may be subject to claims arising from the Company's on-site or off-site services, including the improper release, spillage, misuse or mishandling of refrigerants classified as hazardous or non-hazardous substances or materials. The Company may be held strictly liable for damages, which could be substantial, regardless of whether it exercised due care and complied with all relevant laws and regulations.

Hudson maintains environmental impairment insurance of \$1,000,000 per occurrence, and \$2,000,000 annual aggregate for events occurring subsequent to November 1996.

Government Regulation

The business of refrigerant sales, reclamation and management is subject to extensive, stringent and frequently changing federal, state and local laws and substantial regulation under these laws by governmental agencies, including in the United States the Environmental Protection Agency ("EPA"), the United States Occupational Safety and Health Administration and the United States Department of Transportation.

Among other things, these regulatory authorities impose requirements which regulate the handling, packaging, labeling, transportation and disposal of hazardous and non-hazardous materials and the health and safety of workers, and require the Company and, in certain instances, its employees, to obtain and maintain licenses in connection with its operations. This extensive regulatory framework imposes significant compliance burdens and risks on the Company.

Hudson and its customers are subject to the requirements of the Act, and the regulations promulgated thereunder by the EPA, which make it unlawful for any person in the course of maintaining, servicing, repairing, and disposing of air conditioning or refrigeration equipment, to knowingly vent or otherwise release or dispose of ozone depleting substances, and non-ozone depleting substitutes, used as refrigerants.

Pursuant to the Act, reclaimed refrigerant must satisfy the same purity standards as newly manufactured refrigerants in accordance with standards established by the ARI prior to resale to a person other than the owner of the equipment from which it was recovered. The EPA administers a certification program pursuant to which applicants certify to reclaim refrigerants in compliance with ARI standards. In February 2006, the Company became one of three certified refrigerant testing certified laboratories under ARI's laboratory certification program, which is a voluntary program that certifies the ability of a laboratory to test refrigerant in accordance with the ARI 700 standard.

In addition, the EPA has established a mandatory certification program for air conditioning and refrigeration technicians. Hudson's technicians have applied for or obtained such certification.

The Company is also subject to regulations adopted by the United States Department of Transportation which classify most refrigerants handled by the Company as hazardous materials or substances and impose requirements for handling, packaging, labeling and transporting refrigerants and which regulate the use and operation of the Company's commercial motor vehicles used in the Company's business.

The Resource Conservation and Recovery Act of 1976 ("RCRA") requires facilities that treat, store or dispose of hazardous wastes to comply with certain operating standards. Before transportation and disposal of hazardous wastes off-site, generators of such waste must package and label their shipments consistent with detailed regulations and prepare a manifest identifying the material and stating its destination. The transporter must deliver the hazardous waste in accordance with the manifest to a facility with an appropriate RCRA permit. Under RCRA, impurities removed from refrigerants consisting of oils mixed with water and other contaminants are not presumed to be hazardous waste.

The Emergency Planning and Community Right-to-Know Act of 1986 requires the annual reporting by the Company of Emergency and Hazardous Chemical Inventories (Tier II reports) to the various states in which the Company operates and requires the Company

Page 6

to file annual Toxic Chemical Release Inventory Forms with the EPA.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), establishes liability for clean-up costs and environmental damages to current and former facility owners and operators, as well as persons who transport or arrange for transportation of hazardous substances. Almost all states have similar statutes regulating the handling and storage of hazardous substances, hazardous wastes and non-hazardous wastes. Many such statutes impose requirements, which are more stringent than their federal counterparts. The Company could be subject to substantial liability under these statutes to private parties and government entities, in some instances without any fault, for fines, remediation costs and environmental damage, as a result of the mishandling, release, or existence of any hazardous substances at any of its facilities.

The Occupational Safety and Health Act of 1970 mandates requirements for a safe work place for employees and special procedures and measures for the handling of certain hazardous and toxic substances. State laws, in certain circumstances, mandate additional measures for facilities handling specified materials.

The Company believes that it is in compliance with all material regulations relating to its material business operations.

Quality Assurance & Environmental Compliance

The Company utilizes in-house quality and regulatory compliance control procedures. Hudson maintains its own analytical testing laboratory, which is ARI certified, to assure that reclaimed refrigerants comply with ARI purity standards and employs portable testing equipment when performing on-site services to verify certain quality specifications. The Company employs four persons engaged full-time in quality control and to monitor the Company's operations for regulatory compliance.

Employees

The Company has 60 full and 5 part time employees including air conditioning and refrigeration technicians, chemists, engineers, sales and administrative personnel.

None of the Company's employees are represented by a union. The Company believes that its employee relations are good.

Patents and Proprietary Information

The Company holds an United States patent, and holds eight foreign patents covering seventeen foreign countries and patent applications pending in two other foreign countries, relating to the high-speed equipment, components and process to reclaim refrigerants, and a registered trademark for its "Zugibeast®". The United States patent expires in January 2012 and the foreign patents will expire between May 2014 and December 2014. The Company also holds several patents related to certain RefrigerantSide® Services developed by the Company as well as for certain processes to measure and improve the efficiency of refrigeration systems. These patents will expire between February 2017 and December 2020.

The Company believes that patent protection is important to its business. There can be no assurance as to the breadth or degree of protection that patents may afford the Company, that any patent applications will result in issued patents or that patents will not be circumvented or invalidated. Technological development in the refrigerant industry may result in extensive patent filings and a rapid rate of issuance of new patents. Although the Company believes that its existing patents and the Company's equipment do not and will not infringe upon existing patents or violate proprietary rights of others, it is possible that the Company's existing patent rights may not be valid or that infringement of existing or future patents or violations of proprietary rights of others may occur. In the event the Company's equipment or processes infringe, or are alleged to infringe, patents or other proprietary rights of others, the Company may be required to modify the design of its equipment or processes, obtain a license or defend a possible patent infringement action. There can be no assurance that the Company will have the financial or other resources necessary to enforce or defend a patent infringement or proprietary rights violation action or that the Company will not become liable for damages.

The Company also relies on trade secrets and proprietary know-how, and employs various methods to protect its technology. However, such methods may not afford complete protection and there can be no assurance that others will not independently develop such know-how or obtain access to the Company's know-how, concepts, ideas and documentation. Failure to protect its trade secrets could have a material adverse effect on the Company.

Business Risk Factors

There are many important factors that have affected, and in the future could affect, the Company's business, including but not limited to, the factors discussed below, which should be reviewed carefully together with the other information contained in this report. Some of the factors are beyond the Company's control and future trends are difficult to predict.

Page 7

The Company may need additional financing to satisfy its future capital requirements, which may not be readily available to the Company.

The Company's capital requirements have been and may be significant in the future. In the future, the Company may incur additional expenses in the development and implementation of its operations. As a result, the Company may be required to seek additional equity or debt financing in order to develop its RefrigerantSide® Services business and other businesses. The Company has no current arrangements with respect to, or sources of, additional financing other than a bank line of credit that expires in May 2007. If additional financing is available, it may not be available on acceptable terms. The Company's inability to obtain additional capital financing, if and when needed, could materially adversely affect its business and future financial condition and could require the Company to curtail or otherwise cease its existing operations.

The nature of the Company's business exposes it to potential liability.

The refrigerant recovery and reclamation industry involves potentially significant risks of statutory and common law liability for environmental damage and personal injury. The Company, and in certain instances, its officers, directors and employees, may be subject to claims arising from the Company's on-site or off-site services, including the improper release, spillage, misuse or mishandling of refrigerants classified as hazardous or non-hazardous substances or materials. The Company may be strictly liable for damages, which could be substantial, regardless of whether the Company exercised due care and complied with all relevant laws and regulations. The Company's current insurance coverage may not be sufficient to cover potential claims, and adequate levels of insurance coverage may not be available in the future at a reasonable cost. A partially or completely uninsured claim against the Company, if successful and of sufficient magnitude, would have a material adverse effect on the Company.

The Company's business and financial condition is substantially dependent on the sale and continued environmental regulation of refrigerants.

The Company's business and prospects are largely dependent upon continued regulation of the use and disposition of refrigerants. Changes in government regulations relating to the emission of refrigerants into the atmosphere could have a material adverse effect on the Company. Failure by government authorities to otherwise continue to enforce existing regulations or significant relaxation of regulatory requirements could also adversely affect demand for the Company's services and products.

The Company's business is subject to significant regulatory compliance burdens.

The refrigerant reclamation and management business is subject to extensive, stringent and frequently changing federal, state and local laws and substantial regulation under these laws by governmental agencies, including the EPA, the United States Occupational Safety and Health Administration and the United States Department of Transportation. Although the Company believes that it is in substantial compliance with all material regulations relating to its material business operations, amendments to existing statutes and regulations or adoption of new statutes and regulations which affect the marketing and sale of refrigerant could require the Company to continually alter its methods of operation and/or discontinue the sale of certain of its products resulting in costs to the Company that could be

substantial. The Company may not be able, for financial or other reasons, to comply with applicable laws, regulations and permit requirements, particularly as it seeks to enter into new geographic markets. The Company's failure to comply with applicable laws, rules or regulations or permit requirements could subject it to civil remedies, including substantial fines, penalties and injunctions, as well as possible criminal sanctions, which would, if of significant magnitude, materially adversely impact its operations and future financial condition.

As a result of competition, and the strength of some of its competitors in the market, the Company may not be able to compete effectively.

The markets for the Company's services and products are highly competitive. The Company competes with numerous regional and national companies which provide refrigerant recovery and reclamation services, as well as companies which market and deal in reclaimed and alternative refrigerants, including certain of its suppliers, some of which possess greater financial, marketing, personnel and other resources than the Company. The Company also competes with numerous manufacturers of refrigerant recovery and reclamation equipment. Certain of these competitors have established reputations for success in the service of air conditioning and refrigeration systems. The Company may not be able to compete successfully, particularly as it seeks to enter into new markets.

A number of factors could negatively impact the price and/or availability of refrigerants which would, in turn, adversely affect the Company's business and financial condition.

Refrigerant sales continue to represent a significant portion of the Company's revenues. Therefore, the Company's business is substantially dependent on the availability of both new and used refrigerants in large quantities, which may be affected by several factors including commercial production and consumption limitations imposed by the Act and government regulation on HCFC refrigerants; the ban on production of CFC based refrigerants under the Act; the introduction of new refrigerants and air conditioning

Page 8

and refrigeration equipment; price competition resulting from additional market entrants; and changes in government regulation on the use and production of refrigerants. The Company does not maintain firm agreements with any of its suppliers of refrigerants. Sufficient amounts of new and/or used refrigerants may not be available to the Company in the future, or may not be available on commercially reasonable terms. Additionally, the Company may be subject to price fluctuations, periodic delays or shortages of new and/or used refrigerants. The Company's failure to obtain and resell sufficient quantities of virgin refrigerants, or to obtain, reclaim and resell sufficient quantities of used refrigerants would have a material adverse effect on its future operating margins and results of operations.

The loss of key management personnel would adversely impact the Company's business.

The Company's success is largely dependent upon the efforts of its Chief Executive Officer and Chairman, the loss of his services would have a material adverse effect on the Company's business and prospects.

The Company has the ability to designate and issue preferred stock which may have rights, preferences and privileges greater than the Company's Common Stock and which could impede a subsequent change in control of Hudson.

The Company's Certificate of Incorporation authorizes its Board of Directors to issue up to 5,000,000 shares of "blank check" preferred stock and to fix the rights, preferences, privileges and restrictions, including voting rights, of these shares, without further shareholder approval. The rights of the holders of the Company's Common Stock will be subject to, and may be adversely affected by, the rights of holders of any additional preferred stock that may be issued in the future. The Company's ability to issue preferred stock without shareholder approval could have the effect of making it more difficult for a third party to acquire a majority of its voting stock, thereby delaying, deferring or preventing a change in control of Hudson.

If the Company's Common Stock were delisted from NASDAQ it would be subject to "penny stock" rules which could negatively impact its liquidity and the Company's stockholders' ability to sell their shares.

The Company's Common Stock is currently listed on NASDAQ Capital Market. The Company must comply with numerous NASDAQ MarketPlace rules in order to continue the listing of its Common Stock on NASDAQ. There can be no assurance that the Company can continue to meet the rules required to maintain the NASDAQ listing of the Company's Common Stock. If the Company is unable to maintain its listing on NASDAQ, the market liquidity of the Company's Common Stock may be severely limited.

The Fleming US Discovery Fund III, L.P. and the Fleming US Discovery Offshore Fund III, L.P. effectively control the affairs of the Company.

Currently, the Fleming US Discovery Fund III, L.P. and the Fleming US Discovery Offshore Fund III, L.P. ("Fleming Funds") collectively own approximately 75% of the Company's outstanding Common Stock. Accordingly, the Flemings Funds are in a position to significantly effect, and potentially fully control the Company and the election of its directors, and generally direct the Company's affairs. There is no provision for cumulative voting for the Company's directors.

Item 2. Description of Property

The Company's Auburn, Washington depot facility is located in a 3,000 square foot building leased from an unaffiliated third party at an annual rental of \$25,000 pursuant to an agreement expiring in April 2006.

The Company's Baton Rouge, Louisiana depot facility is located in a 3,800 square foot building leased from an unaffiliated third party pursuant to a month to month rental agreement at an annual rental of \$21,000.

The Company's Champaign, Illinois facility is located in a 48,000 square foot building which was purchased by the Company in May 2005 for \$999,999. The Company has financed the purchase with a 15 year amortizing loan in the amount of \$945,000 with a balloon payment due on June 1, 2012. As of December 31, 2005 annual real estate taxes on this facility are approximately \$31,000.

The Company's Charlotte, North Carolina facility is located in a 8,500 square foot building leased from an unaffiliated third party at an annual rental of \$61,000 pursuant to an agreement expiring in November 2009.

The Company's Fremont, New Hampshire telemarketing facility is located in a 2,100 square foot building leased from an unaffiliated third party at an annual rental of \$13,500 pursuant to an agreement expiring in June 2006.

The Company's Hillburn, New York facility is located in a 21,000 square foot building leased from an unaffiliated third party pursuant to a month to month rental agreement at a monthly rental of \$14,000. In November 2005, the Company entered into a five year lease with an unaffiliated third party for the lease of an 18,000 square foot facility in Orangeburg, New York at an annual rental of

\$161,000. The Orangeburg, New York facility is expected to be ready for occupancy by the Company in the second quarter of 2006, at which time, the Company plans to close the Hillburn, New York facility and relocate its operations to the Orangeburg, New York facility. The lease for the Orangeburg, New York facility, and the Company's obligation to pay rent, will commence 10 days after the facility is ready for occupancy and will expire five years after the commencement date.

The Company's headquarters are located in a 3,625 square foot building in Pearl River, New York. The building is leased from an unaffiliated third party at an annual rental of \$70,000 pursuant to an agreement expiring in December 2007.

The Company typically enters into short-term leases for its facilities and whenever possible extends the expiration date of such leases.

Item 3. Legal Proceedings

On April 1, 1999, the Company reported a release at the Company's Hillburn, New York facility (the "Hillburn Facility"), of approximately 7,800 lbs. of R-11 refrigerant (the "1999 Release"), 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 September 2000, the Company signed an Order on Consent with the DEC, which was amended in May 2001, whereby the Company agreed to operate the remediation system and perform monthly testing at its Hillburn Facility, until remaining groundwater contamination has been effectively abated. In July 2005, the DEC approved a modification of the Order on Consent to reduce the frequency of testing from monthly to quarterly. The Company is continuing to operate the remediation system pursuant to the approved modifications to that Order on Consent and, as of December 31, 2005, the Company has accrued, as an expense in its consolidated financial statements, the costs that the Company believes it will incur in connection with its compliance with the Order on Consent through December 31, 2008. There can be no assurance that additional testing will not be required or that the Company will not incur additional costs and as such, costs in excess of the Company's estimate may have a material adverse effect on the Company financial condition or results of operations.

In May 2000, the Company's Hillburn Facility was nominated by the EPA for listing on the National Priorities List ("NPL"), pursuant to CERCLA. The Company submitted opposition to the listing within the sixty-day comment period. In September 2003, the EPA advised the Company that it has no current plans to finalize the process for listing the Hillburn Facility on the NPL and that the EPA will not 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 the wells operated by United Water of New York, Inc. ("United") that is in the closest proximity to the Village of Suffern's ("Village") well system. No contamination of R-11 has ever been detected in any of the Village's wells and, since October 2002, the level of R-11 in the United well closest to the Village has been below 1 ppb. In September 2004, the Village advised that it intends to continue performing additional sampling of its wells at a cost of approximately \$5,000 per year, and has requested that the Company reimburse the Village for the costs for such sampling. In November 2005, the Village requested reimbursement from the Company of approximately \$3,200 for sampling costs through September 2005.

Between April 2004 and September 2004, Ramapo Land Company ("Ramapo"), the lessor of the Company's Hillburn Facility, advised the Company that it had incurred approximately \$80,000 in legal and consulting fees relating to the 1999 Release at the Hillburn Facility and requested reimbursement from the Company for these costs and for future costs that may be incurred in this regard. In September 2004, Ramapo advised the Company that the value of the real property upon which the Hillburn Facility is situated has been diminished in value by an unspecified amount as a result of the 1999 Release. In July 2005, the Company received a summons with notice in connection with an action commenced by Ramapo against the Company in the Supreme Court of the State of New York, Rockland County, seeking damages in the amount of \$2,000,000 for an alleged and unspecified breach of contract (the "Rockland County Action"). In December 2005, Ramapo completed the sale of the Hillburn Facility to the Town of Ramapo and,

in connection with that sale, the Company entered into a Lease Termination Agreement (the "Agreement") with Ramapo pursuant to which the Company paid Ramapo approximately \$70,000 in exchange for a release from Ramapo "from any claims and causes of action which it has or may have including, without limitation, any claim for a reduction in the value" of the Hillburn Facility. Additionally, in December 2005, the Company entered into a Stipulation of Discontinuance (the "Stipulation") with Ramapo by which Ramapo agreed to dismiss with prejudice all claims asserted by Ramapo in the Rockland County Action. The execution of the Agreement and the Stipulation resolved all claims of Ramapo arising out of the 1999 Release.

The Company has exhausted all insurance proceeds available for the 1999 Release under all applicable policies.

Page 10

During the year ended December 31, 2005, the Company incurred \$84,000 in additional remediation costs in connection with the matters above and such amount has been included as a component of general and administrative expenses. There can be no assurance that the 1999 Release of R-11 refrigerant will not impact the Village wells, or that the ultimate outcome of the 1999 Release will not have a material adverse effect on the Company's financial condition and results of operations. There can be no assurance that the EPA will not change its current plans and seek to finalize the process of listing the Hillburn Facility on the NPL, or that the ultimate outcome of such a listing will not have a material adverse effect on the Company's financial condition and results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

None

Page 11

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Part II

Item 5. Market for Common Equity and Related Stockholder Matters

The Company's Common Stock trades on the NASDAQ Capital Market under the symbol "HDSN". There can be no assurance that, in the future, the Company will be able to meet the requirements necessary for continued listing of its Common Stock on NASDAQ. The following table sets forth, for the periods indicated, the range of the high and low sale prices for the Common Stock as reported by NASDAQ.

	<u>High</u>	<u>Low</u>
<u>2004</u>		
• First Quarter	\$ 1.60	\$ 1.07
• Second Quarter	\$ 1.22	\$ 0.80
• Third Quarter	\$ 1.21	\$ 0.70
• Fourth Quarter	\$ 1.24	\$ 0.72
<u>2005</u>		
• First Quarter	\$ 1.13	\$ 0.85
• Second Quarter	\$ 0.94	\$ 0.76

• Third Quarter	\$ 3.15	\$ 0.78
• Fourth Quarter	\$ 4.05	\$ 1.67

The number of record holders of the Company's Common Stock was approximately 250 as of March 6, 2006. The Company believes that there are in excess of 4,000 beneficial owners of its Common Stock.

To date, the Company has not declared or paid any cash dividends on its Common Stock. The payment of dividends, if any, in the future is within the discretion of the Board of Directors and will depend upon the Company's earnings, its capital requirements and financial condition, borrowing covenants, and other relevant factors. The Company presently intends to retain all earnings, if any, to finance the Company's operations and development of its business and does not expect to declare or pay any cash dividends on its Common Stock in the foreseeable future. In addition, the Company has a credit facility with Keltic Financial Partners, LLP ("Keltic") which, among other things, restricts the Company's ability to declare or pay any cash dividends on its capital stock.

See Item 11 for certain information with respect to the Company's equity compensation plans in effect at December 31, 2005.

Page 12

Item 6. 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-KSB 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 demand and price for refrigerants (including unfavorable market conditions adversely affecting the demand for, and the price of refrigerants), the Company's ability to source CFC and non 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 this report and 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 judgments and estimates, there could be a material adverse effect on the Company. On a continuous basis, the Company evaluates its estimates, including, but not limited to, those estimates related to its allowance for doubtful accounts, 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

The Company has created and developed 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.

Management believes that its RefrigerantSide® Services represent the Company's long term growth potential. The Company is focusing its sales and marketing efforts for its RefrigerantSide® Services on customers who the Company believes most readily appreciate and understand the value that is provided by its RefrigerantSide® Services offering. In pursuing its sales and marketing strategy, the Company focuses its RefrigerantSide® Services on customers in the following industries; 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 pursue the creation of additional strategic alliances with companies that service larger customers in targeted industries, which would enable the Company to (i) co-locate its equipment with these strategic partners and (ii) utilize these partners' sales and marketing resources to offer their customers the Company's RefrigerantSide® Services. In addition, the Company has determined to expand its service offering outside of the United States through a strategic alliance with BOC Group. The Company may incur additional expenses as it develops its RefrigerantSide® Services.

Sales of refrigerants continue to represent a majority of the Company's revenues. Certain of the Company's refrigerant sales are CFC based refrigerants, which are no longer manufactured. The demand for CFC based refrigerants has and will continue to decrease as equipment that utilize other chemical based refrigerants displace those units that utilize CFC based refrigerants, particularly in the

automotive aftermarket segment of the refrigerant sales industry. The Company has increased its refrigerant sales from non CFC based refrigerants, including HCFC refrigerants. Effective January 1, 1996, the Act limits the production of HCFC refrigerants, which production was further limited in January 2004. Federal regulations enacted in January 2004 also imposed limitations on the importation of certain HCFC refrigerants. Under the Act, production of certain HCFC refrigerants is scheduled to be phased out by the year 2020, and production of all HCFC refrigerants is scheduled to be phased out by the year 2030. To the extent that the Company is unable to source CFC based or non CFC based refrigerants on commercially reasonable terms or at all, or the demand for CFC based or non CFC based refrigerants decreases, the Company's financial condition and results of operations could be materially adversely

affected.

Results of Operations

Year ended December 31, 2005 as compared to the year ended December 31, 2004

Revenues for 2005 were \$19,223,000, an increase of \$4,610,000 or 32% from the \$14,613,000 reported during the comparable 2004 period. The increase in revenues was primarily attributable to an increase in refrigerant revenues of \$5,356,000 offset by a decrease in RefrigerantSide® Services revenues of \$746,000. The increase in refrigerant revenues, which resulted from exceptionally strong demand and higher prices, is related to an increase in the price of certain refrigerants sold of \$3,023,000 and an increase in the volume of refrigerants sold of \$2,333,000. The decrease in RefrigerantSide® Services was attributable to a decrease in the size of jobs completed of \$516,000, and a decrease in the number of jobs completed of \$230,000.

Cost of sales for 2005 was \$11,720,000, an increase of \$2,230,000 or 23% from the \$9,490,000 reported during the comparable 2004 period. The increase in cost of sales was primarily due to the increase in volume of refrigerants sold of \$1,066,000 and an increase in the price of refrigerants of \$1,060,000 and an increase in the costs of RefrigerantSide® Services of approximately \$104,000. The increase in the costs of RefrigerantSide® Services is primarily related to an increase in fulfillment expenses. As a percentage of sales, cost of sales was 61% of revenues for 2005, a decrease from the 65% reported for the comparable 2004 period. The decrease in cost of sales as a percentage of revenues was primarily attributable to an increase in the sales price and volume of certain refrigerants.

Operating expenses for 2005 were \$4,915,000 an increase of \$292,000 or 6% from the \$4,623,000 reported during the comparable 2004 period. The increase was primarily attributable to an increase in payroll and other costs of \$406,000 offset by a reduction in depreciation and amortization costs of \$114,000.

Other income (expense) for 2005 was (\$294,000), compared to the (\$236,000) reported during the comparable 2004 period. Other income (expense) includes interest expense of \$303,000 and \$341,000 for the comparable 2005 and 2004 periods, respectively. The decrease in interest expense is primarily attributed to a reduction in outstanding indebtedness partially offset by an increase in the interest rate on the outstanding indebtedness. During the 2004 period, interest expense was offset by insurance proceeds of \$105,000.

Income taxes for the year ended December 31, 2005 of \$24,000 were recognized for states that either do not allow or have limitations on net operating loss carry forwards. During the 2005 and 2004 periods no federal income taxes were recognized on the income before taxes of \$2,294,000 and \$264,000 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 and prior losses. The tax benefits associated with the Company's net operating loss carry forwards is recognized to the extent that the Company is expected to recognize net income. A portion of the Company's net operating loss carry forwards are subject to annual limitations. Limitations on the amount of the Company's net operating loss carry forwards, and on the annual limitations, could occur in the future upon the occurrence of certain events including, without limitation, a change in control of the Company.

Net income for 2005 was \$2,270,000 an increase of \$2,006,000 from the \$264,000 net income reported during the comparable 2004 period. The increase in net income was primarily attributable to an increase in revenues and gross profits partially offset by an increase in selling, general and administrative expenses.

Liquidity and Capital Resources

At December 31, 2005, the Company had working capital, which represents current assets less current liabilities, of approximately \$3,887,000, an increase of \$2,581,000 from the working capital of \$1,306,000 at December 31, 2004. The increase in working capital is primarily attributable to the increase in net income.

Principal components of current assets are inventory and trade receivables. At December 31, 2005, the Company had inventories of \$6,145,000, an increase of \$3,484,000, or 131% from the \$2,661,000 at December 31, 2004. The increase 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 based refrigerants, which are no longer being manufactured or non CFC based refrigerants (see "Reliance on Suppliers and Customers" and "Seasonality and Fluctuations in

Page 14

Operating Results"). At December 31, 2005, the Company had trade receivables, net of allowance for doubtful accounts, of \$1,829,000, an increase of \$90,000 or 5% from the \$1,739,000 at December 31, 2004. The Company's trade receivables are concentrated with various wholesalers, brokers, contractors and end-users within the refrigeration industry that are primarily located in the continental United States.

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

Net cash provided by operating activities for the year ended December 31, 2005, was \$106,000 compared with net cash provided by operating activities of \$856,000 for the comparable 2004 period. Net cash provided by operating activities for the 2005 period was primarily attributable to the net income for the period offset by an increase in accounts receivable and an increase in inventories offset by an increase in accounts payable and accrued expenses.

Net cash used by investing activities for the year ended December 31, 2005, was \$715,000 compared with net cash used by investing activities of \$236,000 for the prior comparable 2004 period. The net cash used by investing activities for the 2005 period was primarily related to investment in property, plant and equipment.

Net cash provided by financing activities for the year ended December 31, 2005, was \$628,000 compared with net cash used by financing activities of \$661,000 for the comparable 2004 period. The net cash provided by financing activities for the 2005 period was due to issuance of Common Stock in accordance with the exercise of employee stock options of \$401,000 and increase in indebtedness of \$171,000 primarily related to additions to property, plant and equipment.

At December 31, 2005, the Company had cash and cash equivalents of \$634,000. 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 for its reclamation facility and to a lesser extent in support of its RefrigerantSide® Services. The Company estimates that total capital expenditures during 2006 may range from approximately \$500,000 to \$700,000.

The following is a summary of the Company's significant contractual cash obligations for the periods indicated that existed as of December 31, 2005 and is more fully disclosed in the Notes to the Consolidated Financial Statements (see Notes 7 and 9 to the Notes to the Consolidated Financial Statements) (amounts in thousands of dollars).

	<u>Year ended December 31,</u>					<u>Total</u>
	<u>2006(2)</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 and after</u>	
Long and short term debt and capital lease obligations (1)	\$1,402	\$ 354	\$ 58	\$ 52	\$ 755	\$2,621
Operating leases	<u>368</u>	<u>298</u>	<u>231</u>	<u>229</u>	<u>212</u>	<u>1,338</u>
Total contractual cash obligations (1)	\$1,770	\$ 652	\$ 289	\$ 281	\$ 967	\$3,959
	=====	=====	=====	=====	=====	=====

(1) The contractual cash obligations included in the table includes principal payments only. For the year ended December 31, 2005, the Company recognized interest expense in the amount of \$303,000. The 2005 interest expense was based primarily on the interest rates in effect and the outstanding obligation balances. It would be expected that in future periods the Company would recognize interest expense on its obligations but such future interest expense is not readily calculable.

(2) Long and short term debt and capital lease obligations include \$1,265,000 outstanding under the revolving line of credit with Keltic. The Company expects that the revolving line of credit will continue to renew through the term of the credit facility, which expires on May 30, 2007.

On May 30, 2003, Hudson entered into a credit facility with Keltic which provides for borrowings of up to \$5,000,000. The facility consists of a revolving line of credit and a term loan. On March 8, 2006, the Company extended the maturity date of the facility by one year from May 30, 2006 to May 30, 2007. 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. At December 31, 2005, the facility bore interest at an interest rate equal to 9.25% which was the prime rate plus 2%. In connection with the March 8, 2006 extension, the interest rate on the loan was reduced to the prime rate plus 1% or 6.5%, at the option of Keltic, for the remainder of the term of the facility. 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 December 31, 2005, Hudson had in the aggregate \$1,265,000 of borrowings outstanding under the Keltic revolving line of credit and \$3,041,000 available for borrowing under the revolving line of credit. In addition, the Company had \$373,000 of borrowings outstanding under its term loan with Keltic.

Page 15

Prior to March 31, 2004, the Company paid dividends, in arrears, on its 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 was the final dividend payment on the outstanding Series A Preferred Stock.

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 \$0.79 per share. Upon conversion the holders of the Series A Preferred Stock received 16,397,468 shares of Common Stock (the "Conversion Shares"). In connection with the original purchase of the Company's Series A Preferred Stock, the holders of the Preferred Stock were provided certain registration, preemptive and tag along rights and such rights continue to be held by the holders of the Conversion Shares. The holders of the Conversion Shares have the right, for as long as they hold at least thirty-five (35%) percent in the aggregate of the Conversion Shares, or at least 5,739,114 Conversion Shares, to nominate up to two individuals to become members of 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 attend and observe meetings of the Board of Directors. The holders of the Conversion Shares have the right, for as long as they hold at least twenty (20%) percent, or at least 3,279,494 Conversion Shares, but less than thirty-five (35%) percent in the aggregate of the Conversion Shares, to nominate one individual to become a member of the Company's Board of Directors, or at their option, to designate one advisor to the Company's Board of Directors who will attend and observe meetings of the Board of Directors.

In May 2005, the Company purchased the Champaign, Illinois facility from its then owner for a total purchase price of \$999,999. The Company has financed the purchase with a 15 year amortizing loan in the amount of \$945,000 with a balloon payment due on June 1, 2012. The note bears interest at 7% for the first five years and then adjusts annually

based on prime plus 2%.

The Company believes that it will be able to satisfy its working capital requirements for the next twelve months from anticipated cash flows from operations and available funds under its credit facility with Keltic. Any unanticipated expenses, including, but not limited to, an increase in the cost of refrigerants purchased by the Company, an increase in operating expenses or failure to achieve expected revenues from the Company's RefrigerantSide® Services and/or refrigerant sales or additional expansion or acquisition costs that may arise in the future would adversely affect the Company's future capital needs. There can be no assurances that the Company's proposed or future plans will be successful, and as such, the Company may require additional capital sooner than anticipated, which capital may not be available.

Inflation

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

Reliance on Suppliers and Customers

The Company's financial performance and its ability to sell refrigerants is in part dependent on its ability to obtain sufficient quantities of virgin, non CFC based refrigerants, and of reclaimable, primarily CFC based, 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. The Company's refrigerant sales include CFC based refrigerants, which are no longer manufactured. Additionally, the Company's refrigerant sales include non CFC based refrigerants, including HCFC refrigerants. Effective January 1, 1996, the Act limits the production of HCFC refrigerants, which production was further limited in January 2004. Federal regulations enacted in January 2004 also imposed limitations on the importation of certain HCFC refrigerants. Under the Act, the production of certain HCFC refrigerants is scheduled to be phased out by the year 2020 and production of all HCFC refrigerants is scheduled to be phased out by the year 2030. Notwithstanding the limitations imposed by and under the Act, the Company believes that sufficient quantities of new and used refrigerants will continue to be available to it at a reasonable cost for the foreseeable future. To the extent that the Company is unable to source sufficient quantities of virgin or reclaimable refrigerants in the future, or resell refrigerants at a profit, the Company's financial condition and results of operations would be materially adversely affected.

For the year ended December 31, 2005 one customer accounted for 12% and one customer accounted for 11% of the Company's revenue. For the year ended December 31, 2004 one customer accounted for 12% of the Company's revenues.

The loss of a principal customer or a decline in the economic prospects of and/or a reduction in purchases of the Company's products or services by any such customer could have a material adverse effect on the Company's 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, 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 losses particularly in the fourth quarter of the year. Delays or inability in securing adequate supplies of refrigerants at peak demand periods, lack of refrigerant demand, increased expenses, declining refrigerant prices and a loss of a principal customer could result in significant losses. There can be no assurance that the foregoing factors will not occur and result in a material adverse effect on the Company's financial position and significant losses. The Company believes that there is a similar seasonal element to RefrigerantSide® Service revenues as refrigerant sales. The Company is continuing to assess its RefrigerantSide® Service revenues seasonal trend.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued FASB statement No. 151 ("SFAS 151"), which amends ARB No. 43 Chapter 4, which deals with the accounting for inventory pricing. The amendment provides greater clarity on costs that are to be included in the cost of inventory versus those costs which are considered period costs.

In December 2004, the FASB issued FASB statement No. 152 ("SFAS 152"). SFAS 152 addresses accounting for the sale of real estate and the cost associated with real estate projects.

In December 2004, the FASB issued FASB statement No. 153 ("SFAS 153"). SFAS 153 addresses accounting for non-monetary transactions.

SFAS 151, 152 and 153 are effective for fiscal years beginning after September 15, 2005. The Company does not believe that the adoption of these accounting pronouncements will have a material impact on the Company's financial position and results of operations.

In December 2004, the FASB issued a revision of FASB statement No. 123, ("Revised SFAS 123") which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. Revised SFAS 123 establishes fair value as the measurement objective in accounting for share-based payment arrangements. Revised SFAS 123 is effective as of the beginning of the first annual reporting period that begins after December 15, 2005. The revised SFAS No. 123 may have a material effect on the Company's results of operations but not on the Company's financial position.

In May 2005, the FASB issued FASB statement No. 154 ("SFAS 154"). SFAS 154 addresses accounting for changes and error corrections. This statement is effective for fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of the accounting pronouncement will have a material impact on the Company's financial position and results of operations.

Item 7. Financial Statements.

The financial statements appear in a separate section of this report following Part III.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 8A. 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 December 31, 2005. 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: (i) information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure by the Company; and (ii) 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 December 31, 2005, 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.

Item 8B. Other Information

None

Page 17

Part III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The following table sets forth information with respect to the directors and executive officers of the Company:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Kevin J. Zugibe	42	Chairman of the Board and Chief Executive Officer
Brian F. Coleman	44	President and Chief Operating Officer
James R. Buscemi	53	Chief Financial Officer
Charles F. Harkins, Jr.	44	Vice President Sales
Stephen P. Mandracchia	46	Vice President Legal and Regulatory and Secretary
Vincent P. Abbatecola	59	Director
Robert L. Burr	55	Director
Dominic J. Monetta	64	Director
Otto C. Morch	72	Director
Harry C. Schell	71	Director
Robert M. Zech	40	Director

Kevin J. Zugibe, P.E.,

a founder of the Company, has been Chairman of the Board and Chief Executive Officer of the Company since its inception in 1991. From May 1987 to May 1994, Mr. Zugibe was employed as a power engineer with Orange and Rockland Utilities, Inc., a major public utility, where he was responsible for all HVAC applications. Mr. Zugibe is a licensed professional engineer, and from December 1990 to May 1994, he was a member of Kevin J. Zugibe & Associates, a professional engineering firm. Mr. Zugibe is the brother-in-law of Stephen P. Mandracchia.

Brian F. Coleman

has been President and Chief Operating Officer of the Company since August 21, 2001 and served as Chief Financial Officer of the Company from May 1997 until December 2002. From June 1987 to May 1997, Mr. Coleman was employed by, and since July 1995, was a partner with BDO Seidman, LLP, the Company's independent auditors.

James R. Buscemi

has been Chief Financial Officer of the Company since December 2002 and served as Corporate Controller since joining the Company in June 1998. Prior to joining the Company, Mr. Buscemi held various financial positions within Avnet, Inc, including Chief Financial Officer of

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Avnet's electric motors and component part subsidiary, Brownell Electro, Inc.

Charles F. Harkins, Jr.

has been Vice President of Sales of the Company since December 2003. Mr. Harkins has served in a variety of capacities since joining the Company in 1992. Prior to joining the Company, Mr. Harkins served in the U.S. Army for 13 years attaining the rank of Staff Sergeant; he is a graduate of the U.S. Army Engineer School and the U.S. Army Chemical School.

Stephen P. Mandracchia

, a founder of the Company, has been Vice President Legal and Regulatory of the Company since August 2003 and has been Secretary of the Company since April 1995. Mr. Mandracchia has served in a variety of capacities with the Company since 1993. Mr. Mandracchia was a member of the law firm of Martin, Vandewalle, Donohue, Mandracchia & McGahan, Great Neck, New York until December 31, 1995 (having been affiliated with such firm since August 1983). Mr. Mandracchia is the brother-in-law of Mr. Zugibe.

Vincent P. Abbatecola

has been a Director of the Company since June 1994. Mr. Abbatecola is Vice President of Abbey Ice & Spring Water Company, Spring Valley, New York, where he has been employed since May 1971. He is Past Chairman of the International Packaged Ice Association. Mr. Abbatecola is a Trustee of Nyack Hospital, and a board member of the Rockland Business Association and the Rockland Board of Governors. Mr. Abbatecola also serves on the Union State Bank and St. Thomas Aquinas President's Councils.

Robert L. Burr

has been a Director of the Company since August 1999. Mr. Burr has been a Partner of Windcrest Discovery Investments LLC, an investment management firm, from its inception in February 2002 and since October 2001 has a consulting agreement with J.P. Morgan Partners under which he is the lead partner of Fleming US Discovery Partners, L.P., a private equity sponsor affiliated with J.P. Morgan Chase & Co. Fleming US Discovery Partners, L.P. is the general partner of Fleming US Discovery Fund III, L.P. and Fleming US Discovery Offshore Fund III, L.P. Mr. Burr was employed by J. P. Morgan Chase & Co. from July 1995 to October 2001. From 1992 to 1995, Mr. Burr was head of Private Equity at Kidder, Peabody & Co., Inc. Previously, Mr. Burr served as the Managing General Partner of Morgan Stanley Ventures and General Partner of Morgan Stanley Venture Capital Fund I, L.P. and was a corporate lending officer with Citibank, N.A. Mr. Burr serves on the Board of Directors of Displaytech, Inc. and Impax Laboratories, Inc.

Page 18

Dominic J. Monetta, DPA

has been a Director of the Company since April 1996. Dr. Monetta has been the President of Resource Alternatives, Inc., a corporate development firm concentrating on solving management and technological issues facing chief executive officers and their senior executives since August 1993. From December 1991 to May 1993, Dr. Monetta served as the Director of Defense Research and Engineering for Research and Advanced Technology, United States Department of Defense. From June 1989 to December 1991, Dr. Monetta served as the Director of the Office of New Production Reactors, United States Department of Energy.

Otto C. Morch

has been a Director of the Company since March 1996. Mr. Morch was a Senior Vice President of Commercial Banking at Provident Savings Bank, F.A. for more than five years until his retirement in December 1997.

Harry C. Schell

has been a Director of the Company since August 1998. Mr. Schell has been a private investor since 1994. Mr. Schell served as Chairman, President and Chief Executive Officer of BICC Cables Corporation, a company engaged in the manufacture of wires and cable products, from 1990 to January 1994, and was President and Chief Executive Officer of BICC's predecessor company, Cablec Corporation, from 1984 to 1990. Mr. Schell was President and Chief Executive Officer of Phelps Dodge Cable and Wire Company, a company engaged in the production of wire and cable products, from 1974 to 1984. Mr. Schell served on the board of directors of the BICC Group and BICC Cables Corporation, Phillips

Cables Limited, National Electrical Manufacturers Association and the United Way of Rockland County (New York).

Robert M. Zech

has been a Director of the Company since June 1999. Mr. Zech has been a Partner of Windcrest Discovery Investments LLC, an investment management firm, from its inception in February 2002 and since July 2003 has a consulting agreement with J.P. Morgan Partners with respect to Fleming US Discovery Partners, L.P. From April 1996 to October 2001, Mr. Zech was employed by J.P. Morgan Chase & Co., where he was a Partner of Fleming US Discovery Partners, L.P., the general partner of Fleming US Discovery Fund III, L.P. and Fleming US Discovery Offshore Fund III, L.P. From 1994 to 1996, Mr. Zech was an Associate with Cramer Rosenthal McGlynn, Inc., an investment management firm. Previously Mr. Zech served as an Associate with Wolfensohn & Co., a mergers & acquisitions advisory firm, and was a Financial Analyst at leveraged buyout sponsor Merrill Lynch Capital Partners, Inc. and in the investment banking division of Merrill Lynch & Co. Mr. Zech serves on the Board of Directors of Displaytech, Inc.

Messrs Burr and Zech were nominated for election to the Board of Directors by the holders of the Conversion Shares, which have the right, for as long as they hold at least thirty-five (35%) percent in the aggregate of the Conversion Shares, or at least 5,734,114 Conversion Shares, to nominate up to two individuals to become members of the Board of Directors.

The Company has established a Compensation/Stock Option Committee of the Board of Directors, which is responsible for recommending the compensation of the Company's executive officers and for the administration of the Company's Stock Option Plans. The members of the Committee are Messrs. Abbatecola, Burr, Morch and Zech.

The Company has an Audit Committee of the Board of Directors, which supervises the audit and financial procedures of the Company. The members of the Audit Committee are Messrs. Abbatecola, Monetta and Morch, each of whom is an "independent" director as defined under the rules of the NASD. The Company's Audit Committee does not have a member that qualifies as a "financial expert" under the federal securities laws. Each of the members of the Audit Committee have been active in the business community and have broad and diverse backgrounds, and financial experience. Two of the current members have served on the Company's Audit Committee and have overseen the financial review by the Company's independent auditors for eight (8) years. The Company believes that the current members of the Audit Committee are able to fully and faithfully perform the functions of the Audit Committee and that the Company does not need to install a "financial expert" on the Audit Committee.

The Company has an Executive Committee of the Board of Directors, which is authorized to exercise the powers of the board of directors in the general supervision and control of the business affairs of the Company during the intervals between meetings of the board. The members of the Executive Committee are Messrs. Burr, Schell and Zugibe. The Company's Occupational, Safety And Environmental Protection Committee is responsible for satisfying the Board that the Company's Environmental, Health and Safety policies, plans and procedures are adequate. The members of the Occupational, Safety and Environmental Protection Committee are Messrs. Monetta and Zugibe.

The By-laws of the Company provide that the Board of Directors is divided into two classes. Each class is to have a term of two years, with the term of each class expiring in successive years, and is to consist, as nearly as possible, of one-half of the number of directors constituting the entire Board. The By-laws provide that the number of directors shall be fixed by the Board of Directors but in any event, shall be no less than five (5) (subject to decrease by a resolution adopted by the shareholders). At the Company's June 28, 2005 Annual Meeting of the Shareholders, Messrs. Abbatecola, Burr and Morch were elected as directors to terms of office that will expire at the Annual Meeting of Shareholders to be held in the year 2007. Messrs. Monetta, Schell, Zech and Zugibe are currently serving as directors and their terms of office expire at the Annual Meeting of Shareholders to be held in the year 2006. Mr. Zech has stated that he does not plan to stand for re-election.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10 percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Officers, directors, and greater than 10 percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on the Company's review of copies of such forms received by the Company, and on representations made to the Company, the Company believes that during the year ended December 31, 2005, all filing requirements applicable to all officers, directors, and greater than 10% beneficial stockholders were complied with.

Code of Conduct and Ethics

The Company has adopted a written code of conduct and ethics that applies to all directors, and employees, including the Company's principal executive officer, principal financial officer, principal accounting officer or controller and any persons performing similar functions. The Company will provide a copy of its code of ethics to any person without charge upon written request addressed to Hudson Technologies, Inc., 275 North Middletown Road, Pearl River, New York 10965, Attention: Stephen P. Mandracchia.

Item 10. Executive Compensation

The following table discloses, for the years indicated, the compensation for the Company's Chief Executive Officer and each executive officer that earned over \$100,000 during the year ended December 31, 2005 (the "Named Executives").

Summary Compensation Table

<u>Name</u>	<u>Position</u>	<u>Year</u>	<u>Annual Compensation (1)</u>		<u>Long Term Compensation Awards</u>
			<u>Salary</u>	<u>Bonus</u>	<u>Securities Underlying Options #</u>
Kevin J. Zugibe (2)	Chairman of the Board and Chief Executive Officer	2005	\$166,412	\$75,500(4)	273,750 shares
		2004	\$146,230	\$62,750(3)	331,250 shares
		2003	\$145,136	--	123,000 shares
Brian F. Coleman	President and Chief Operating Officer	2005	\$150,645	\$61,000(4)	182,500 shares
		2004	\$138,799	\$48,000(3)	118,750 shares
		2003	\$138,799	--	79,500 shares
James R. Buscemi	Chief Financial Officer	2005	\$113,091	\$32,000(4)	91,250 shares
		2004	\$108,800	\$18,450(3)	46,875 shares
		2003	\$108,593	--	15,000 shares
Charles F. Harkins, Jr.	Vice President Sales	2005	\$142,522	\$70,000(4)	136,875 shares
		2004	\$136,800	\$53,450(3)	57,813 shares
		2003	\$133,031	\$10,000	85,000 shares
Stephen P. Mandracchia	Vice President Legal and	2005	\$129,879	\$45,210(4)	101,250 shares

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Regulatory and Secretary	2004	\$123,800	\$33,450(3)	61,875 shares
	2003	\$123,800	--	60,000 shares

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- The value of personal benefits furnished to the Named Executives during 2003, 2004 and 2005 did not exceed 10% of their respective annual compensation.
 - A certain portion of Mr. Zugibe's compensation has been paid in stock option awards rather than cash. As a result, options to purchase 15,000 shares of common stock for the year ended December 31, 2003 were issued in lieu of cash compensation.
 - Bonus was earned in 2004 and was paid during the first and second quarters of 2005.
 - Bonus was earned in 2005 and was paid during the first quarter of 2006.

Page 20

The Company granted options, which, except as otherwise set forth below, vest upon the date of grant, to the Named Executives during the fiscal year ended December 31, 2005, as shown in the following table:

Option Grants in the 2005 Fiscal Year

<u>Name</u>	<u>Position</u>	<u>Number of Securities Underlying Options Granted</u>	<u>% of Total Options Granted to Employees in Fiscal Year</u>	<u>Exercise or Base price(\$/sh)</u>	<u>Expiration Date</u>
Kevin J. Zugibe	Chairman of the Board and Chief Executive Officer	93,750(1)	8.3%	\$1.02	01/03/2015
		18,750(2)	1.7%	\$0.87	04/01/2015
		18,750(3)	1.7%	\$0.83	07/08/2015
		18,750(4)	1.7%	\$2.15	09/30/2015
		18,750	1.7%	\$1.76	12/29/2015
		105,000	9.3%	\$1.76	12/29/2015