

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 quarter ended December 31, 2007

or

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

Commission file number: 0-9587

HUDSON HOLDING CORPORATION

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware
(State of incorporation)

20-3766053
(I.R.S. Employer Identification No.)

111 Town Square Place
Suite 1500A
Jersey City, New Jersey 07310
(Address of principal executive offices, including zip code)

(201) 216-0100
(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

The number of shares outstanding of the issuer's common stock, \$.001 par value, on February 8, 2008, was 36,725,185 shares.

Transitional Small Business Disclosure Format (check one): Yes No

HUDSON HOLDING CORPORATION

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HUDSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL CONDITION
December 31, 2007
(unaudited)

ASSETS	
Cash and cash equivalents	\$ 370,501
Cash - restricted	242,889
Receivable from clearing broker	3,052,094
Securities owned, at fair value	5,285,965
Employee receivables	2,179,986
Income taxes receivable	421,622
Furniture, equipment, capitalized software and leasehold improvements, net	776,939
Deferred tax asset	981,139
Other assets	484,501
Goodwill	<u>1,111,179</u>
	<u>\$ 14,906,815</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Securities sold, but not yet purchased, at fair value	\$ 1,383,121
Commissions payable	891,452
Accrued expenses and other liabilities	<u>1,175,189</u>
Total liabilities	<u>3,449,762</u>
Commitments and contingencies (Note G)	
Stockholders' equity:	
Preferred stock, \$.001 par value, 1,000,000 shares authorized, none issued	-
Common stock, \$.001 par value, 100,000,000 shares authorized, 41,445,185 shares issued and 36,725,185 shares outstanding	36,725
Additional paid-in capital	12,394,471
Accumulated deficit	<u>(974,143)</u>
Total stockholders' equity	<u>11,457,053</u>
	<u>\$ 14,906,815</u>

See notes to these consolidated condensed financial statements.

HUDSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2007	2006	2007	2006
Revenues:				
Trading gains, net	\$ 2,081,690	\$ 4,532,053	\$ 10,999,896	\$ 13,615,470
Commissions	3,245,707	767,695	5,139,762	1,699,352
Interest and other income, net	283,238	57,620	760,050	140,065
	<u>5,610,635</u>	<u>5,357,368</u>	<u>16,899,708</u>	<u>15,454,887</u>
Expenses:				
Salaries and related costs	1,212,309	800,976	3,403,161	2,424,488
Commissions, execution and clearing charges	3,596,022	2,733,098	9,798,488	7,621,548
Communications	1,198,947	1,241,708	3,752,720	3,195,174
Occupancy	280,198	392,771	1,117,277	865,835
Professional fees	288,675	147,318	751,459	397,342
Business development	257,326	113,246	503,045	280,601
Other	299,616	203,751	821,643	559,844
	<u>7,133,093</u>	<u>5,632,868</u>	<u>20,147,793</u>	<u>15,344,832</u>
(Loss) income before income taxes	(1,522,458)	(275,500)	(3,248,085)	110,055
Income tax (benefit) provision	(627,364)	(99,461)	(1,264,279)	101,871
Net (loss) income	<u>\$ (895,094)</u>	<u>\$ (176,039)</u>	<u>\$ (1,983,806)</u>	<u>\$ 8,184</u>
(Loss) earnings per share - basic	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.05)</u>	<u>\$ 0.00</u>
(Loss) earnings per share - diluted	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.05)</u>	<u>\$ 0.00</u>
Weighted average number of shares outstanding - basic	<u>36,725,185</u>	<u>30,650,516</u>	<u>36,725,185</u>	<u>28,329,429</u>
Weighted average number of shares outstanding - diluted	<u>36,725,185</u>	<u>30,650,516</u>	<u>36,725,185</u>	<u>28,584,891</u>

See notes to these consolidated condensed financial statements.

HUDSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended	
	December 31,	
	2007	2006
Cash flows from operating activities:		
Net (loss) income	\$ (1,983,806)	\$ 8,184
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	202,481	100,835
Stock-based compensation	177,344	39,523
Employee receivable amortization	239,014	-
Commissions receivable reserve provision	112,121	208,737
Deferred rent	118,064	71,499
Deferred taxes	(902,139)	44,000
Changes in:		
Receivable from clearing broker	(2,107,063)	(3,371,099)
Securities owned	8,902,783	(4,896,264)
Employee receivables	(2,419,000)	-
Commissions receivable	(112,121)	(208,737)
Income taxes receivable	191,644	(1,050,218)
Other assets	(214,628)	250,223
Securities sold, but not yet purchased	(6,883,274)	4,619,400
Commissions payable	263,364	(611,797)
Accrued expenses and other liabilities	181,837	315,075
Net cash used in operating activities	<u>(4,233,379)</u>	<u>(4,480,639)</u>
Cash flows from investing activities:		
Purchase of furniture, equipment, capitalized software and leasehold improvements	(501,343)	(341,034)
Cash subject to restrictions	<u>(7,052)</u>	<u>(225,000)</u>
Net cash used in investing activities	<u>(508,395)</u>	<u>(566,034)</u>
Cash flows from financing activities:		
Proceeds from issuance of stock, net of issuance costs	-	5,480,697
Net cash provided by financing activities	<u>-</u>	<u>5,480,697</u>
Net (decrease) increase in cash and cash equivalents	(4,741,774)	434,024
Cash and cash equivalents - beginning of year	<u>5,112,275</u>	<u>476,549</u>
Cash and cash equivalents - end of period	<u>\$ 370,501</u>	<u>\$ 910,573</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	<u>\$ 5,500</u>	<u>\$ 1,114,060</u>
Non-cash operating activities:		
Commissions receivable written-off against reserve	<u>\$ -</u>	<u>\$ 112,521</u>

See notes to these consolidated condensed financial statements.

HUDSON HOLDING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

NOTE A - ORGANIZATION, OPERATIONS AND BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the consolidated condensed financial position of Hudson Holding Corporation ("Holding") as of December 31, 2007, and the consolidated condensed results of its operations and cash flows for the three and nine month periods ended December 31, 2007 and 2006. The results of operations for the three and nine month periods ended December 31, 2007 are not necessarily indicative of the operating results for the full year. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated condensed financial statements and related disclosures for the year ended March 31, 2007 included in Holding's Annual Report on Form 10-KSB.

The consolidated condensed financial statements include the accounts of Holding, a holding company, and its wholly owned subsidiaries, namely Hudson Securities, Inc. ("Hudson") and Hudson Technologies Inc. ("Technologies") (collectively the "Company"). Hudson is a registered broker-dealer under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority ("FINRA"). Hudson is a market maker specializing in providing liquidity in less liquid, difficult to trade stocks and is an introducing broker which clears all transactions through a clearing organization on a fully disclosed basis. Accordingly, Hudson is exempt from rule 15c3-3 of the Securities Exchange Act of 1934. On May 22, 2006, Technologies was formed as a Delaware corporation for the purpose of providing software development and technology services for Hudson and for third parties. Technologies had total assets of \$724,599 as of December 31, 2007 and had revenues of \$32,256 and \$91,519 and net income of \$16,480 and \$5,477 for the three and nine months ended December 31, 2007, respectively. The Company has offices in New Jersey and Florida.

On July 21, 2004 a predecessor broker-dealer formed a wholly-owned subsidiary named Hudson Capital Markets, Inc. ("HCMI"), which was organized in the state of Delaware. HCMI was authorized to issue 30,000,000 shares of common stock with a par value of \$.001 per share. On July 31, 2004, the predecessor broker-dealer was merged into HCMI, with HCMI becoming the survivor ("HCMI Merger") and the name was changed to Hudson Securities, Inc. In connection with this merger, the stockholders of the predecessor broker-dealer received 83,333.33 shares of Hudson for each share of the predecessor broker-dealer shares owned. The historical capital accounts were retroactively adjusted to reflect the equivalent number of shares issued by HCMI in the HCMI Merger, while the predecessor broker-dealer historical retained earnings was carried forward.

In December 2004, Hudson entered into an Agreement and Plan of Merger (the "Agreement") with Health Outcomes Management, Inc. ("HOM"), a non-operating public company. On May 3, 2005, under the terms of the Agreement, Hudson's stockholders exchanged all 10,967,000 shares of their common stock for 19,334,084 post reverse-split shares of HOM common stock, and Hudson's warrant holders exchanged 998,667 of their Hudson warrants with an exercise price of \$1.85 for 1,760,590 post reverse-split warrants to purchase HOM common stock at \$1.0494 per share (the "Exchange"). The HOM shares that were issued represented 94% of HOM's outstanding interest at the time of the Exchange. In connection with the legal form of this transaction, Hudson became a wholly owned subsidiary of HOM. On September 6, 2005, HOM changed its name to Hudson Holding Corporation and effectuated a one for eight reverse stock split for all stockholders of record as of the close of business on June 13, 2005. For financial reporting purposes, the Exchange represents a capital transaction of Hudson or a "reverse merger" rather than a business combination. Accordingly, the number of shares issued and outstanding and additional paid-in capital of Holding has been retroactively adjusted to reflect the equivalent number of shares issued by HOM in the Exchange, on a post reverse-split basis, while Hudson's historical retained earnings is being carried forward. All costs attributable to the reverse merger were expensed. Further, all per share amounts and number of common stock shares, including those obtainable on the exercise of options and warrants, in these consolidated condensed financial statements and notes thereto, have been reflected on a post reverse-split basis.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Securities transactions:

Hudson records transactions in securities and the related revenue and expenses on a trade-date basis. Securities owned and securities sold, but not yet purchased, are stated at market value with the resulting unrealized gains and losses reflected in trading gains, net. Securities which do not have a readily ascertainable market value are valued at their estimated fair value as determined by management. Because of the inherent uncertainty of valuation, the management determined values may differ significantly from values that would have been used had a ready market for these securities existed and the differences could be material.

[2] Income taxes:

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). SFAS No. 109 requires that the Company recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined on the basis of the difference between the tax basis of liabilities and assets and their respective financial reporting amounts ("temporary differences") at enacted tax rates in effect for the years in which the temporary differences are expected to reverse. The Company records an estimated valuation allowance on its deferred income tax assets if it is not more than likely that these deferred income tax assets will be realized.

The Company files a consolidated federal income tax return, as well as state income tax returns in certain jurisdictions. Federal and state income tax returns, beginning with those filed for the ten months ended October 31, 2004 and the twelve months ended December 31, 2003, respectively, and through March 31, 2007, remain subject to exam. As of December 31, 2007, the Company had approximately \$2,666,000 of federal net operating losses ("NOLs"), of which (a) approximately \$1,231,000 of federal NOLs that are eligible to be carried back against prior period taxable income and for which the Company has recognized approximately \$419,000 of current income tax receivables; plus (b) approximately \$1,435,000 of federal NOL carryforwards which expire in 2028. In addition, the Company has approximately \$3,844,000 of state NOL carryforwards, which expire in 2011, 2013 and 2014. A valuation allowance has been established to offset a portion of the deferred tax asset to the extent the Company has not determined that it is more likely than not that the future tax benefits will be realized. The Company has elected an accounting policy whereby interest and penalties assessed by jurisdictions, if any, would be classified as an operating expense.

[3] Furniture, equipment, leasehold improvements, capitalized software, and depreciation and amortization:

Furniture, equipment and leasehold improvements are recorded at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful life of the related asset or, in the case of leasehold improvements, over the shorter of its estimated useful life or the lease term.

During April 2006, the Company began capitalizing certain costs incurred in connection with developing or obtaining internal use software pursuant to Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Unamortized capitalized software development costs of approximately \$426,834 represents software in service which is being amortized over its estimated useful life and is being carried in furniture, equipment, capitalized software and leasehold improvements in the Consolidated Condensed Statement of Financial Condition as of December 31, 2007. In addition, \$70,119 of unamortized capitalized software development costs represents software that is still in development and is not being amortized.

[4] Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. The most significant assumptions relate to determining the fair value of certain securities, determining the valuation allowance associated with deferred tax assets, and the evaluation of goodwill for impairment. Actual results could differ from those estimates.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

[5] Cash and cash equivalents:

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be a cash equivalent. Restricted cash represents an automatically renewable, fourteen month time deposit which collateralizes a letter of credit (see Note G [3]) for additional details.

[6] Concentrations of credit risk:

Hudson is engaged in trading on a principal and/or agency basis with and for primarily other securities broker-dealers and institutional investors such as mutual funds, hedge funds, banks and similar businesses. Counterparties to Hudson's business activities include broker-dealers and clearing organizations, and can include banks and other financial institutions. Hudson uses one clearing broker to process transactions and maintain customer accounts. The clearing broker extends credit to Hudson's clientele which is secured by cash and securities in the clients' account. Hudson's exposure to credit risk associated with the non-performance by its customers and counterparties in fulfilling their contractual obligations can be directly impacted by volatile or illiquid trading markets, which may impair the ability of customers and counterparties to satisfy their obligations to Hudson. Additionally, Hudson has agreed to indemnify the clearing broker for losses it incurs while extending credit to Hudson's clients. Amounts due from customers that are considered uncollectible are charged back to Hudson by the clearing broker when such amounts become determinable.

In the normal course of business, Hudson enters into transactions in various financial instruments for trading purposes. These financial instruments include securities sold short, but not yet purchased, and option and warrant contracts.

Securities sold short, but not yet purchased, represent obligations of Hudson to deliver the underlying securities sold; and option and warrant contracts written represent obligations of Hudson to purchase or deliver the specified security at the contracted price. Hudson's ultimate obligation on such instruments may exceed the amount recognized in the consolidated condensed statement of financial condition. Hudson monitors its positions continuously to reduce the risk of the potential loss due to changes in market value or failure of counterparties to perform.

Substantially all of Hudson's cash and security positions are deposited with its clearing broker for safekeeping purposes. Hudson maintains cash in bank accounts, which, at times, may exceed federally insured limits. Hudson has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

[7] Goodwill:

On June 30, 2004, an investor group purchased all of the outstanding common stock of the broker-dealer which was the predecessor to Hudson for a purchase price of approximately \$7,136,000. As a result, the predecessor broker-dealer changed its name to Hudson and recorded goodwill of approximately \$1,111,000, which represented the excess of the purchase price over the estimated fair value of the assets acquired and liabilities assumed.

The Company accounts for its goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Under SFAS No. 142, goodwill is not subject to amortization, but rather an assessment of impairment, by applying a fair value based test. The Company reviews goodwill for impairment annually, during the fourth quarter of each year, and also between annual tests upon the occurrence of trigger events. The reviews are performed at the Hudson level, generally by using the market capitalization of the Company as an indicator of fair value, since Hudson currently represents the most significant component of the consolidated entity. Impairment is potentially indicated when the carrying value of Hudson, including goodwill, exceeds its fair value. If a potential impairment is indicated, the fair value of Hudson would be measured against the fair value of its underlying assets and liabilities, excluding goodwill, to estimate an implied fair value of Hudson's goodwill. If that fair value was less than the carrying value of goodwill, impairment would be recorded. As a result of its assessment, the Company has determined that no such potential impairment was indicated during the year ended March 31, 2007 and there were no trigger events during the nine months ended December 31, 2007.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**[8] Commissions receivable reserve:**

Commissions receivable represent cumulative draws and benefits provided to traders and salespersons in excess of cumulative commissions earned. The Company will collect these receivables if future earned commissions exceed future draws and benefits. The Company establishes reserves as an offset to the receivable balance on the basis of historical collections and estimates of future collections. As of December 31, 2007, the Company had \$272,390 of commissions receivable offset by a reserve of the same amount.

[9] Stock-based compensation:

Commencing with the first issuance of stock options on May 26, 2006, the Company accounts for stock options issued under the recognition and measurement principles of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment", ("SFAS 123(R)"). Under the provisions of SFAS 123(R), the Company is required to measure the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the award is measured on the grant date and for non-employees, the award is generally remeasured on interim financial reporting dates until the service period is complete, in accordance with EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period.

[10] Reclassifications:

Certain fiscal 2007 amounts have been reclassified to conform with the fiscal 2008 presentation.

[11] (Loss) earnings per share:

Basic (loss) earnings per share ("EPS") has been calculated by dividing net (loss) income by the weighted average shares of common stock outstanding during the period. Diluted EPS reflects the change in EPS, using the treasury stock method to reflect the impact of common share equivalents as if dilutive securities such as stock options or warrants were exercised or converted into common stock.

The following is a reconciliation of the numerators and denominators of the basic and diluted (loss) earnings per share computations for the three and nine months ended December 31, 2007 and 2006:

	Three Months Ended			
	December 31, 2007		December 31, 2006	
	Numerator/ Net Loss	Denominator/ Shares	Numerator/ Net Loss	Denominator/ Shares
Net loss and shares used in basic calculation	\$ (895,094)	36,725,185	\$ (176,039)	30,650,516
Effect of dilutive securities - options and warrants	-	-	-	-
Net loss and shares used in diluted calculation	\$ (895,094)	36,725,185	\$ (176,039)	30,650,516
Loss per share - basic	\$ (0.02)		\$ (0.01)	
Loss per share - diluted	\$ (0.02)		\$ (0.01)	

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**[11] (Loss) earnings per share, continued:**

	Nine Months Ended			
	December 31, 2007		December 31, 2006	
	Numerator/ Net Loss	Denominator/ Shares	Numerator/ Net Income	Denominator/ Shares
Net (loss) income and shares used in basic calculation	\$ (1,983,806)	36,725,185	\$ 8,184	28,329,429
Effect of dilutive securities - options and warrants	-	-	-	255,462
Net (loss) income and shares used in diluted calculation	<u>\$ (1,983,806)</u>	<u>36,725,185</u>	<u>\$ 8,184</u>	<u>28,584,891</u>
(Loss) earnings per share - basic	<u>\$ (0.05)</u>		<u>\$ 0.00</u>	
(Loss) earnings per share - diluted	<u>\$ (0.05)</u>		<u>\$ 0.00</u>	

Potentially dilutive securities realizable from the vesting of restricted stock, the exercise of warrants and the exercise of options of 4,720,000, 7,122,774 and 3,020,000, respectively, for the three and nine months ended December 31, 2007 and 0, 1,760,590 and 820,000, respectively, for the three and nine months ended December 31, 2006, are excluded from the computation of diluted net (loss) earnings per share because the effect of their inclusion would have been anti-dilutive.

[12] Recently issued accounting standards:

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), for which adoption was required for fiscal years beginning after December 15, 2006. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that the Company determine whether the benefits of tax positions are more likely than not of being sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not of being sustained upon audit, the Company recognizes the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that are not more likely than not of being sustained upon audit, the Company does not recognize any portion of the benefit in the financial statements. The Company adopted this interpretation effective April 1, 2007. The adoption did not have any effect on the Company's consolidated condensed financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 requires the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices in active markets for identical assets and liabilities (Level 1), inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2), and unobservable inputs for the asset or liability (Level 3). SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated condensed financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted, provided the entity also elects to apply the provisions of SFAS 157. The Company is currently evaluating the impact of adopting SFAS 159 on its consolidated condensed financial statements.

NOTE C - RECEIVABLE FROM CLEARING BROKER

At December 31, 2007, the receivable from clearing broker amount in the consolidated condensed statement of financial condition represents the Company's cash balance with its clearing broker.

NOTE D - SECURITIES OWNED AND SECURITIES SOLD, BUT NOT YET PURCHASED

Securities owned and securities sold, but not yet purchased, at December 31, 2007 consisted entirely of marketable equity securities.

NOTE E - EMPLOYEE RECEIVABLES

During the nine months ended December 31, 2007, Hudson has loaned \$2,419,000 to employees as an incentive for affiliating with the Company. The employees signed employment agreements and promissory notes with Hudson bearing interest at rates ranging from 4% to 5%. The employment agreements specify that Hudson will forgive the loans, or a portion thereof, if the employees remain employed with Hudson for a certain duration. The loans are being amortized on a straight-line basis over the period specified in the employment agreement. Loan amortization charged to salaries and related costs in the statements of operations was \$210,708 and \$239,014 for the three and nine months ended December 31, 2007, respectively.

NOTE F - STOCKHOLDERS' EQUITY

[1] Warrants:

The Company has 4,787,664 and 574,520 warrants outstanding which are exercisable for common stock at a price of \$0.85 and \$0.60 per share, respectively, and expire in 2011. These warrants are redeemable by the Company on terms specified in the warrant agreement.

In addition, the Company has 1,760,590 warrants outstanding which are exercisable for common stock at a price of \$1.0494 per share and expire in 2009. The warrants may be redeemed by the Company at \$0.01 per redeemable warrant, upon not less than thirty days written notice, if the average of the closing sale price of the common stock is at least \$2.10 for a period of 20 consecutive days ending on the third day prior to the date of the notice of redemption. Any right to exercise the warrant expires on the business day immediately preceding the date of redemption.

[2] Stock plans:

The 2005 Stock Option Plan (the "2005 Plan"), which was approved by the Board on June 8, 2005 and by shareholders on July 26, 2005, provides for the granting of incentive and/or nonqualified stock options to purchase up to an aggregate of 2,000,000 shares of the Company's common stock. The 2007 Long-Term Incentive Compensation Plan (the "2007 Plan"), which was approved by the Board on June 28, 2007 and by shareholders on August 14, 2007, provides for the granting of incentive and/or nonqualified stock options, stock appreciation rights, restricted stock awards, performance units and performance bonuses to purchase up to an aggregate of 10,000,000 shares of the Company's common stock. Under both plans, (1) awards may be granted to employees, consultants, independent contractors, officers and directors; (2) the maximum term of any award shall be ten years from the date of grant; (3) the exercise price of any award shall not be less than the fair value on the date of grant; and (4) awards will typically result in the issuance of new common shares.

[3] Stock option grants:

The Company recognized \$43,959 and \$12,720 during the three months ended December 31, 2007 and December 31, 2006, respectively, and \$120,967 and \$21,320 during the nine months ended December 31, 2007 and December 31, 2006, respectively, of compensation expense related to employee stock option grants, which is reflected as salaries and related costs in the consolidated condensed statement of operations. As of December 31, 2007, there was \$381,073 of unrecognized employee stock-based compensation expense related to stock option grants that will be amortized over a weighted average period of 2.1 years.

In addition, the Company recognized \$0 and \$15,000 during the three and nine months ended December 31, 2007, respectively, and \$0 and \$17,400 during the three and nine months ended December 31, 2006, respectively, of professional fees expense in the consolidated condensed statement of operations, related to immediately vested director stock option grants.



NOTE F - STOCKHOLDERS' EQUITY, continued

[3] Stock option grants, continued:

On May 2, 2007, the Company granted options to a consultant to purchase an aggregate of 250,000 shares of the Company's common stock at an exercise price of \$0.80 per share under the 2005 Plan. The options, which expire on November 2, 2010, vest equally on each of the first three anniversaries of the date of grant. Consultant options are revalued based on the Black-Scholes option pricing model on financial reporting dates during the service period. The Company recognized stock-based compensation expense of \$2,292 and \$6,111 as professional fees expense for the three and nine months ended December 31, 2007, respectively. The Company will record additional expense relating to these options during their vesting period with a final adjustment based on the options' fair value on the vesting dates.

The Company has computed the fair value of options granted using the Black-Scholes option pricing model. Under SFAS 123(R) forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. The estimated forfeiture rate was set at 5%. This estimate will be adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate, when it's material. The expected term of options granted represents the estimated period of time that options granted are expected to be outstanding. Given that the Company's shares have only been publicly traded since May 3, 2005, the Company developed an expected volatility figure based on a review of the historical volatilities, over a period of time, equivalent to the expected life of these options, of similarly positioned public companies within its industry, during the early stages of their life as a public company. The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the options. Hudson has not paid any dividends in the past and does not expect to pay any in the near future. In applying the Black-Scholes option pricing model at grant date, the Company used the following weighted average assumptions:

	For the three months ended December 31,		For the nine months ended December 31,	
	2007	2006	2007	2006
Risk free interest rate	3.17%	4.70%	3.66%	4.74%
Expected term (years)	1.75	2.45	2.09	2.48
Expected volatility	65%	65%	65%	65%
Expected dividends	—	—	—	—
Forfeiture rate	5%	5%	5%	5%

The weighted average estimated grant date fair value of the stock options granted during the three months ended December 31, 2007 and 2006 was \$0.02 and \$0.32 per share, respectively, and during the nine months ended December 31, 2007 and 2006 was \$0.12 and \$0.37 per share, respectively.

A summary of options activity during the nine months ended December 31, 2007, is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value
Balance, March 31, 2007	1,355,000	\$ 1.00		
Granted	1,740,000	0.81		
Exercised	-	-		
Forfeited	(75,000)	1.27		
Balance, December 31, 2007	<u>3,020,000</u>	<u>\$ 0.89</u>	<u>1.8</u>	<u>\$ 5,500</u>
Exercisable, December 31, 2007	<u>351,672</u>	<u>\$ 0.91</u>	<u>3.0</u>	<u>\$ -</u>

NOTE F - STOCKHOLDERS' EQUITY, continued

[3] Stock option grants, continued:

The following table presents information related to stock options at December 31, 2007:

	Options Outstanding		Options Exercisable	
	Exercise Price	Number of Options	Weighted Average Remaining Life In Years	Number of Options
\$ 0.35		110,000	-	-
0.40		75,000	4.5	75,000
0.49		305,000	-	-
0.80		250,000	-	-
0.90		475,000	-	-
1.00		1,725,000	2.5	230,004
1.15		30,000	3.6	30,000
1.46		50,000	1.9	16,668
		<u>3,020,000</u>	3.0	<u>351,672</u>

[4] Restricted stock grants:

The Company recognized \$35,265 during the three and nine months ended December 31, 2007 and \$0 during the three and nine months ended December 31, 2006 of compensation expense related to employee restricted stock option grants, which is reflected as salaries and related costs in the consolidated condensed statement of operations. As of December 31, 2007, there was \$1,414,835 of unrecognized employee stock-based compensation expense related to restricted stock grants that will be amortized over a weighted average period of 3.7 years.

A summary of non-vested restricted stock activity for the nine months ended December 31, 2007 is presented in the table below:

	Number of Shares	Weighted Average Grant Date Fair Value	Total Grant Date Fair Value
Non-vested, March 31, 2007	-	\$ -	\$ -
Granted	4,720,000	0.31	1,450,100
Vested	-	-	-
Forfeited	-	-	-
Non-vested, December 31, 2007	<u>4,720,000</u>	\$ 0.31	<u>\$ 1,450,100</u>

In addition, pursuant to an employment agreement commitment, upon meeting specified revenue targets prior to an employee's fifteen month anniversary, the employee is entitled to a \$500,000 restricted stock grant. The number of shares of restricted stock to be awarded will be determined by reference to the grant date market price of the common stock (see Note K).

NOTE G - COMMITMENTS AND CONTINGENCIES

[1] Leases:

The Company currently leases office space in Jersey City, New Jersey and two satellite locations. On April 4, 2006, Hudson entered into an agreement to sublease 26,875 rentable square feet of office space in Jersey City, New Jersey. The sublease is guaranteed by Holding. The lease commenced on June 21, 2006 and expires on August 30, 2012. The Company occupied the new Jersey City headquarters location during September 2006. Initially, the Company maintained the original Jersey City office space as a back-up site. During September 2007, the Company eliminated network connectivity at the site and recognized a lease abandonment charge of approximately \$75,000, representing the Company's remaining lease commitments, in preparation for the November 30, 2007 lease expiration. On February 1, 2007, the Company entered into an agreement to sublease an additional 2,744 rentable square feet of office space in Tinton Falls, New Jersey. The lease commenced on March 1, 2007 and expires on March 31, 2010.

As of December 31, 2007, the Company had a deferred lease liability of \$226,506 which represents the excess of rent expense recognized on a straight-line basis over the term of the leases as compared to cash rental payments and is included in accrued expenses and other liabilities on the Statement of Financial Condition.

Future minimum commitments related to non-cancelable operating leases as of December 31, 2007 are as follows :

Years Ended December 31,	Office Leases	Equipment Leases	Total
2008	\$ 488,000	\$ 101,000	\$ 589,000
2009	539,000	12,000	551,000
2010	509,000	9,000	518,000
2011	531,000	-	531,000
2012	376,000	-	376,000
	<u>\$ 2,443,000</u>	<u>\$ 122,000</u>	<u>\$ 2,565,000</u>

Rent expense, net of sublease income, was approximately \$280,000 and \$393,000 for the three months ended December 31, 2007 and 2006, and was approximately \$1,117,000 and \$866,000 for the nine months ended December 31, 2007 and 2006, respectively.

[2] Employment agreements:

On January 4, 2007, Hudson entered into five year employment agreements, effective as of January 1, 2007, with Mr. Martin C. Cunningham and Mr. Keith R. Knox, whereby each will continue in their present positions, Chief Executive Officer and President, respectively. Mr. Cunningham and Mr. Knox are key employees of the Company and these employment agreements are deemed to be commitments of the Company. The agreements provide that each shall receive a salary of \$200,000 per year, plus a formula-based annual bonus. In addition, the Company entered into a two year employment agreement with another key employee, effective as of December 1, 2006, which provides that the employee shall receive a salary of \$150,000 per year.

Future minimum salary commitments pursuant to these employment agreements are as follows:

Years Ended December 31,	
2008	\$ 537,500
2009	400,000
2010	400,000
2011	400,000
	<u>\$ 1,737,500</u>

NOTE G - COMMITMENTS AND CONTINGENCIES, continued

[3] Letter of credit:

In connection with the new Jersey City office lease, on April 20, 2006 Hudson deposited a one-year \$225,000 irrevocable standby letter of credit with the landlord as security, which automatically renews for additional one-year terms, unless sixty days written notice is provided. Pursuant to the lease agreement, Hudson is required to maintain the letter of credit until sixty days following the expiration of the lease. On April 5, 2006, Hudson deposited \$225,000 with the issuing financial institution in the form of an automatically renewable, fourteen-month time deposit, in order to collateralize the letter of credit. The time deposit, plus accrued interest, is included in cash-restricted on the accompanying statement of financial condition.

[4] Contingencies:

The Company has been named as a defendant in various routine actions that are incidental to its activities as a broker-dealer including civil actions and arbitration. From time to time, the Company is also involved in proceedings and investigations by self-regulatory organizations. Although the ultimate outcome of these matters involving the Company cannot be predicted with certainty, management believes it has meritorious defenses to all such actions and intends to defend each of these actions vigorously. Although there can be no assurances that such matters will not have a material adverse effect on the results of operations or financial condition of the Company in any future period, depending in part on the results for such period, in the opinion of the Company's management, the ultimate resolution of such actions against the Company will have no material adverse effect on the Company's financial condition.

NOTE H - NET CAPITAL REQUIREMENT

Hudson is subject to various regulatory requirements, including the SEC's Uniform Net Capital Rule (SEC rule 15c3-1), which is intended to ensure the general financial soundness and liquidity of broker-dealers by requiring the maintenance of minimum levels of net capital. These regulations place limitations on certain transactions, such as repaying subordinated borrowings, paying cash dividends, and making loans to its parent, affiliates or employees. Broker-dealers are prohibited from such transactions which would result in a reduction of its total net capital to less than 120% of its required minimum net capital. Moreover, broker-dealers are required to notify the SEC before entering into such transactions which, if executed, would result in a reduction of 30% or more of its excess net capital (net capital less the minimum requirement) during a thirty day period. The SEC has the ability to prohibit or restrict such transactions if the result is detrimental to the financial integrity of the broker-dealer.

At December 31, 2007, Hudson had net capital of \$4,312,800, which was \$3,312,800 in excess of its required net capital of \$1,000,000.

NOTE I - RELATED PARTY TRANSACTIONS

Mark Bisker, Chief Technology Officer (as a consultant) and Director (effective September 2007) of the Company, was the Chief Executive Officer and a Director of a consulting firm that provided software development services to the Company, an entity in which he held a 31.5% ownership interest, until November 29, 2007 when the consulting firm was sold to a third party. Through November 29, 2007, services valued at \$64,270 and \$235,064 were provided to the Company by this consulting firm during the three and nine months ended December 31, 2007, respectively, most of which has been capitalized as internally developed software (see Note B[3]). Of these amounts, \$0 remained unpaid as of December 31, 2007.

NOTE J - REVENUE CONCENTRATIONS

The Company considers significant revenue concentrations to be customers or employees who account for 10% or more of the total revenues generated by the Company during the period. The Company had one such employee who accounted for 14% of total revenues during the three months ended December 31, 2007.

NOTE K - SUBSEQUENT EVENTS

Employment agreement commitments:

Employment agreement commitments resulted in the following activity subsequent to December 31, 2007:

- (a) The Company made employee loan commitments of \$1,750,000, as an incentive for affiliating with the Company, which will be funded in installments between May and September 2008. Employee loans are evidenced by promissory notes, bear interest at rates of 4-5%, are forgiven over contractual service periods and are amortized on a straight-line basis over the same service period.
- (b) The Company granted options to purchase 500,000 shares of common stock at an exercise price of \$1.00 to employees, pursuant to the 2005 Plan and 2007 Plan. The options vest immediately if a designated group of employees meets specified revenue targets during the twelve months ended December 31, 2008. The \$25,000 grant date fair value will begin to be amortized over the service period once vesting appears to be probable.
- (c) The Company granted 3,641,666 shares of restricted stock to employees, pursuant to the 2007 Plan, including 833,333 shares at a market value of \$0.60 which was issued in fulfillment of an obligation to grant \$500,000 of restricted stock to an employee upon meeting certain revenue targets (see Note F[3]). One-quarter of each grant will vest on each of the next four anniversary dates. Accordingly, the \$1,800,250 grant date fair value of the grants will be amortized over the four year service period, pursuant to SFAS 123(R).

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis of Hudson Holding Corporation and Subsidiaries' (the "Company") consolidated condensed financial condition and results of operations should be read in conjunction with the consolidated condensed financial statements and notes thereto appearing elsewhere herein.

This report contains various forward-looking statements made pursuant to the safe harbor provisions under the Private Securities Litigation Reform Act of 1995 (the "Reform Act") and information that is based on management's beliefs as well as assumptions made by and information currently available to management. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, the Company can give no assurance that such expectations will prove to be correct. When used in this report, the words "anticipate", "believe", "estimate", "expect", "predict", "project", and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements which speak only as of the date hereof, and should be aware that the Company's actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including business conditions, growth in the overall market for the Company's services, general economic conditions, lower than expected customer transactions, competitive factors including increased competition, changes in the mix of business, and resource constraints and other statements under "Risk Factors" set forth in our Form 10-KSB for the year ended March 31, 2007 and other filings with the Securities and Exchange Commission (the "SEC"). Any forward-looking statements regarding industry trends, product development and liquidity and future business activities should be considered in light of these factors. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Business Environment

We, like other securities firms, are directly affected by economic and political conditions, broad trends in business and finance, changes in volume and price levels of securities transactions, and changes in interest rates, all of which can affect our profitability. Severe market fluctuations or weak economic conditions could reduce our trading volume and net revenues and adversely affect our profitability. In periods of reduced market activity, our profitability may also be affected because certain expenses, such as salaries, certain communications costs, and occupancy remain relatively fixed.

Results of Operations

Three months ended December 31, 2007 compared to three months ended December 31, 2006

We had overall revenues consisting of net trading gains, commission revenue, plus interest and other income of \$5,610,635 for the three months ended December 31, 2007 as compared to \$5,357,368 for the three months ended December 31, 2006, an increase of \$253,267 or 5%. Commission revenues were \$3,245,707 compared to \$767,695 during the same period last year, an increase of \$2,478,012 or 323%, due to a significant expansion of our institutional sales effort. Net trading gains were \$2,081,690 compared to \$4,532,053 during the same period in the prior year, a decrease of \$2,450,363 or 54%, primarily due to an approximately \$600,000 loss associated with a single trading error, other proprietary trading losses and a general decline in market activity associated with recent market turbulence. Interest and other income were \$283,238 compared to \$57,620 during the comparable period last year, an increase of \$225,618, or 392%, primarily due to an increase in fees from introducing brokers.

Our cost structure consists of both variable costs, such as commissions, execution and clearing charges, and fixed costs, such as salaries and related costs (including payroll taxes and benefits), communications (quote, trading, order management and telecommunication services), occupancy (rent, electricity, maintenance and real estate taxes), professional fees (attorneys and auditors), business development (travel, entertainment and advertising) and other operating costs. From a compensation perspective, roughly half of our employees are salaried, while the rest, consisting of most of our traders and salespersons, receive revenue-based commission payments.

Trader and salesperson commissions were \$2,887,469 (51% of revenues, due to an increase in average payout rates and certain proprietary trading losses for which there is no recovery against salesperson commissions) in the three months ended December 31, 2007 compared to \$2,134,780 (40% of revenues) in the comparable prior year period. Execution and clearance charges of \$708,553 (13% of revenues; primarily due to the impact of proprietary trading losses) in the three months ended December 31, 2007 compares to \$598,318 (11% of revenues) in the three months ended December 31, 2006. Communication costs were \$1,198,947 in the quarter ending December 31, 2007 compared to \$1,241,708 in the same quarter last year, a decrease of \$42,761 or 3%. Occupancy costs were \$280,198 in the quarter ending December 31, 2007 compared to \$392,771 in the same quarter last year, a decrease of \$112,573 or 29%, due to the elimination of lease payments at our former headquarters location.

Salaries and related costs were \$1,212,309 compared to \$800,976 in the comparable quarter in the prior year, an increase of \$411,333 or 51%, primarily due to an increase in salaried technology, trading, marketing and sales personnel, salary increases, recruiting incentives, plus an increase in stock-based compensation expense. Professional fees were \$288,675 compared to \$147,318 in the comparable quarter in the prior year, an increase of \$141,357 or 96%, primarily due to the outsourcing of certain functions plus an increase in professional services devoted to regulatory compliance requirements. Business development expenses were \$257,326 in the quarter ending December 31, 2007 compared to \$113,246 in the prior period quarter, an increase of \$144,080 or 127%, due to an expansion of our marketing efforts. Other expenses were \$299,616 in the quarter ending December 31, 2007 compared to \$203,751 in the prior period quarter, an increase of \$95,865 or 47%, due to increased amortization costs associated with our internally developed software and the timing of certain regulatory assessments.

The pre-tax loss of \$1,522,458 for the three months ended December 31, 2007 compares to a pre-tax loss of \$275,500 for the three months ended December 31, 2006. There was a net loss of \$895,094 for the three months ended December 31, 2007 as compared to a net loss of \$176,039 during the same quarter last year. The income tax benefit of \$627,364 for the three months ended December 31, 2007 compares to the income tax benefit of \$99,461 for the three months ended December 31, 2006, primarily due to the larger pre-tax loss.

Nine months ended December 31, 2007 compared to nine months ended December 31, 2006

We had overall revenues consisting of net trading gains, commission revenue, plus interest and other income of \$16,899,708 for the nine months ended December 31, 2007 as compared to \$15,454,887 for the nine months ended December 31, 2006, an increase of \$1,444,821 or 9%. Commission revenues were \$5,139,762 compared to \$1,699,352 during the same period last year, an increase of \$3,440,410 or 202%, due to a significant expansion of our institutional sales effort. Net trading gains were \$10,999,896 compared to \$13,615,470 during the same period in the prior year, a decrease of \$2,615,574 or 19%, primarily due to an approximately \$600,000 loss associated with a single trading error, other proprietary trading losses and a general decline in market activity associated with recent market turbulence. Interest and other income were \$760,050 compared to \$140,065 during the comparable period last year, an increase of \$619,985, or 443%, primarily due to an increase in fees from introducing brokers.

Our cost structure consists of both variable costs, such as commissions, execution and clearing charges, and fixed costs, such as salaries and related (including payroll taxes and benefits), communications (quote, trading, order management and telecommunication services), occupancy (rent, electricity, maintenance and real estate taxes), professional fees (attorneys and auditors), business development (travel, entertainment and advertising) and other operating costs. From a compensation perspective, roughly half of our employees are salaried, while the rest, consisting of most of our traders and salespersons, receive revenue-based commission payments.

Trader and salesperson commissions were \$8,231,878 (49% of revenues, due to an increase in average payout rates, amortization of forgivable employee receivables utilized as recruiting inducements, and certain proprietary trading losses for which there is no recovery against salesperson commissions) in the nine months ended December 31, 2007 compared to \$6,192,529 (40% of revenues) in the comparable prior year period. Execution and clearance charges of \$1,566,610 (9% of revenues) in the nine months ended December 31, 2007 compares to \$1,429,019 (9% of revenues) in the nine months ended December 31, 2006. Communication costs were \$3,752,720 in the nine months ending December 31, 2007 compared to \$3,195,174 in the same period last year, an increase of \$557,546 or 17%, due to services required for an expanded sales and trading staff. Occupancy costs were \$1,117,277 in the nine months ending December 31, 2007 compared to \$865,835 in the same period last year, an increase of \$251,442 or 29%, due to the lease payments at our former headquarters location from July 2006 through November 2007 and due to increased costs associated with the new headquarters location and a new satellite office.

Salaries and related costs were \$3,403,161 compared to \$2,424,488 in the comparable period in the prior year, an increase of \$978,673 or 40%, primarily due to an increase in salaried technology, trading, marketing and sales personnel, salary increases, recruiting incentives, plus an increase in stock-based compensation expense. Professional fees were \$751,459 compared to \$397,342 in the comparable period in the prior year, an increase of \$354,117 or 89%, primarily due to the outsourcing of certain functions plus an increase in professional services devoted to regulatory compliance requirements. Business development expenses were \$503,045 in the nine months ending December 31, 2007 compared to \$280,601 in the prior period, an increase of \$222,444 or 79%, due to an expansion of our marketing efforts. Other expenses were \$821,643 in the nine months ending December 31, 2007 compared to \$559,844 in the prior period, an increase of \$261,799 or 47%, due to increased amortization costs associated with our internally developed software, increased equipment rental expense, a bad debt provision associated with an employee receivable, and the timing of certain regulatory assessments.

The pre-tax loss of \$3,248,085 for the nine months ended December 31, 2007 compares to a pre-tax income of \$110,055 for the nine months ended December 31, 2006. There was a net loss of \$1,983,806 for the nine months ended December 31, 2007 as compared to net income of \$8,184 during the same period last year. The income tax benefit of \$1,264,279 for the nine months ended December 31, 2007 compares to the income tax provision of \$101,871 for the nine months ended December 31, 2006, which is due to the pre-tax loss.

Liquidity and Capital Resources

Working Capital

Our working capital (current assets less current liabilities) declined to \$6.1 million at December 31, 2007 from \$11.1 million at March 31, 2007, primarily as a result of operating losses and expenditures to increase our revenue generation capacity, including technology and software development expenditures, plus the making of forgivable employees loans as a recruitment incentive, partially offset by a reduction in our net security positions.

We have not declared and paid, nor do we expect to declare and pay in the intermediate future, any dividends on our common stock. Current assets include cash, receivable from clearing broker (cash on deposit with our clearing broker), marketable securities, income taxes receivable and certain other assets due to be collected near-term. All liabilities are current liabilities.

We currently do not have any outstanding bank borrowings or long-term debt. On April 20, 2006, we provided a \$225,000 letter of credit to the landlord associated with our new headquarters space, after depositing \$225,000 of collateral with the issuing financial institution in the form of a fourteen month time deposit.

Our requirement for funding is, and will be, driven by both working capital and regulatory net capital requirements associated with current operations, the enhancement of our technology, software development, and by potential future expansion into related activities and possible acquisition opportunities. Such expansion could require the issuance of additional forgivable employee loans, restricted stock, stock options or other stock-based awards in order to recruit and retain experienced professionals (see Notes E, F and K to the consolidated condensed financial statements for additional details). See Note H to the consolidated condensed financial statements for additional details related to regulatory net capital requirements. While our operations have been profitable during three of the last four fiscal years, we still expect that any further significant expansion or acquisition opportunities will require additional subordinated debt or common stock issuances in order to maintain the required levels of working capital or net capital. There can be no assurance that we will be successful in attracting such funding.

Our contractual commitments consist primarily of office and equipment leases, plus commitments related to certain employment agreements (see Note G to the consolidated condensed financial statements for additional details). Subsequent to December 31, 2007, we made employee loan commitments of \$1,750,000, as an incentive for affiliating with us, which will be funded in installments between May and September 2008, (see Note K to the consolidated condensed financial statements for additional details). Technologies was formed as a Delaware corporation on May 22, 2006 and was funded with a total of \$550,000 during the fiscal year ended March 31, 2007. The purpose of Technologies is to perform software development and technology services, both for the Company and for customers.

Our cash position declined by \$4,741,774 to \$370,501 during the nine months ended December 31, 2007, partially because at December 31, 2007 we elected to retain our excess cash with our clearing broker, which is represented as a receivable from clearing broker on our consolidated condensed statement of financial position. Cash increased by \$434,024 to \$910,573 during the nine months ended December 31, 2006.

Operating Activities

Net cash used in operating activities was \$4,233,379 during the nine months ended December 31, 2007, primarily as a result of depositing an incremental \$2,107,063 of cash with our clearing broker, the extension of \$2,419,000 of forgivable loans to new salespersons as a recruiting incentive, and a \$1,983,806 net loss from operations during the period, partially offset by a \$2,019,509 increase in cash due to a reduction of our net security positions. Net cash used in operating activities was \$4,480,639 during the nine months ended December 31, 2006, primarily as a result of a \$3,371,099 increase in the receivable from broker-dealer balances and a \$1,050,218 change from an income tax payable to an income tax receivable.

Investing Activities

Net cash used in investing activities was \$508,395 during the nine months ended December 31, 2007, primarily due to \$352,974 associated with the development of capitalized software for internal use and \$148,369 associated with the purchase of furniture, equipment and leasehold improvements. Net cash used in investing activities was \$566,034 during the nine months ended December 31, 2006, primarily due to \$188,000 associated with the development of capitalized software for internal use, \$153,034 associated with the purchase of furniture, equipment and leasehold improvements, plus \$225,000 used for an automatically renewable, fourteen month time deposit, which collateralizes an outstanding letter of credit deposited with our new Jersey City, New Jersey landlord as security.

Financing Activities

Net cash provided by financing activities was \$0 during the nine months ended December 31, 2007. Net cash provided by financing activities was \$5,480,697 during the nine months ended December 31, 2006. This represented the proceeds, less issuance costs, from our November 2006 private placement.

OFF BALANCE SHEET ARRANGEMENTS

On April 20, 2006, a financial institution issued a one-year, automatically renewable, irrevocable \$225,000 standby letter of credit, on our behalf, to the landlord associated with our new office lease as a security deposit. The Company is obligated to maintain the letter of credit until sixty days after the August 30, 2012 expiration of the lease. The Company deposited \$225,000 with the financial institution in the form of an automatically renewable fourteen month time deposit, in order to collateralize the letter of credit. As of December 31, 2007, we had no other off-balance sheet arrangements, as defined in Item 303(c)(2) of SEC Regulation S-B.

ITEM 3: CONTROLS AND PROCEDURES

- a. Our Chief Executive Officer and Principal Accounting Officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934) as of the end of the quarter ended December 31, 2007. Based on this evaluation, our Chief Executive Officer and Principal Accounting Officer have concluded that our controls and procedures are effective in providing reasonable assurance that the information required to be disclosed in this report is accurate and complete and has been recorded, processed, summarized and reported within the time period required for the filing of this report. Subsequent to the date of this evaluation, there have not been any significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our internal controls.
- b. There are no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation nor were there any significant deficiencies or material weaknesses in the Company's internal controls. Accordingly, no corrective actions were taken.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time we experience routine litigation in the normal course of our business. We are not a party to any material legal proceedings and we do not believe that any pending litigation will cause a material adverse effect on our financial condition, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the quarter ended December 31, 2007, we did not issue or repurchase any of our equity securities. We do not currently have in place a repurchase program for the repurchase of our common stock, nor do we have any plans to implement a common stock repurchase program in the near future, if at all.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

On January 10, 2007, the Company entered into an employment agreement (the "Agreement") with David Scialabba. The Company inadvertently did not make the required timely disclosure required by Item 1.01 of Form 8-K. Accordingly, the Company is providing the disclosure required thereunder under this Item 5. A copy of the Agreement is filed as Exhibit 10.1 to this Quarterly Report on Form 10-QSB and is incorporated herein by reference to such Exhibit. The foregoing description of the Agreement is qualified in its entirety by reference to such Exhibit.

Item 6. Exhibits

- 10.1 Employment Agreement dated as of January 10, 2008 between the Company and David Scialabba *
- 31.1 Rule 13a-14(a) Certification by the Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification by the Principal Accounting Officer
- 32.1 Certification by the Chief Executive Officer Relating to a Periodic Report Containing Financial Statements**
- 32.2 Certification by the Principal Accounting Officer Relating to a Periodic Report Containing Financial Statements.**

* Filed herewith.

** The Exhibit attached to this Form 10-QSB shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to liability under that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 14, 2008

By: /s/ Martin C. Cunningham

Name: Martin C. Cunningham

Title: Chairman and Chief Executive Officer

Dated: February 14, 2008

By: /s/ Keith R. Knox

Name: Keith R. Knox

Title: President and Principal Accounting Officer

EMPLOYMENT AGREEMENT

This Employment Agreement (the “Agreement”), dated as of January 10, 2008 (“Agreement Date”), by and between Hudson Securities, Inc., a Delaware corporation (“Company”), having an address of 111 Town Square Place, 15th Floor, Jersey City, New Jersey 07310, and David Scialabba (the “Employee”), residing at 210-B Sunset Road, Oyster Bay, New York 11771.

WITNESSETH:

WHEREAS, the Company is a registered broker-dealer and member of the Financial Industry Regulatory Authority (“FINRA”) engaged in the business of market making, trading, institutional agency trading, investment banking and research; and

WHEREAS, the Company wishes to employ the Employee and the Employee is willing to be so employed and to render services to the Company, all upon the terms and subject to the conditions contained herein;

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is acknowledged, the parties agree as follows:

1. Employment. Subject to and upon the terms and conditions contained in this Agreement, the Company hereby agrees to employ Employee and Employee agrees to enter the employ of the Company, for the period set forth in Paragraph 2 hereof, to render the services to the Company, its affiliates and/or subsidiaries described in Paragraph 3 hereof.

2. Term. Employee’s employment by the Company is at the will of either party. Employee’s term of employment (the “Agreement Term”) under this Agreement shall commence on a date no later than January 22, 2008 (such date, the “Commencement Date”) and shall continue until terminated by either party for any reason but subject to the terms and conditions set forth herein, but in no event will Employee render any services under this Agreement to the Company in any form whatsoever prior to the Commencement Date.

3. Duties and Responsibilities of Parties.

(a) Employee shall be employed as the Company’s Senior Vice President (“SVP”) of Institutional Sales, as co-Head of the Institutional Sales Group with Vincent Pelosi and Dana Pascucci. It is agreed that Employee shall perform his services in the Company’s Jersey City, New Jersey offices, as well as in the offices of the Company’s affiliates and/or subsidiaries in New Jersey and New York and he will be responsible for institutional account coverage and, at the request of the Company, for managing institutional sales and sales trading, which duties, responsibilities and work location may only be changed by mutual written agreement of the parties. All existing and future institutional sales traders or other members of the Institutional Sales Group (each, a “Subordinate”, and collectively, the “Subordinates”) employed by the Company will report to the co-Heads of the Institutional Sales Group, unless existing employees previously specified by written commitments of the firm are prohibited from doing so.

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WITH RESPECT TO CERTAIN PORTIONS HEREOF
DENOTED WITH “***”**

(b) Employee shall report to the Chief Executive Officer of the Company or any other more senior executive officers appointed by the Board of Directors of the Company and agrees to abide by all bylaws and applicable policies of the Company promulgated from time to time by the Board of Directors of the Company.

(c) The Company represents that it will continue to update its technological resources to maintain its current level of technology.

(d) The Company represents that it has, and will maintain, the ability to trade in the overseas markets currently available to the firm.

(e) The Company agrees to implement the employment of a CSA agreement and soft dollar person with knowledge and expertise of regulatory and legal requirements applicable to the Institutional Sales Group business as necessitated by the business needs of the Institutional Sales Group as determined by the Company.

(f) The Company agrees to use its best efforts to assist the Employee to begin the process of opening a New York branch office capable of supporting Employee’s business needs within six-months of the Commencement Date and will permit Employee the option to work from the New York branch office. If the Company has not substantially committed to opening a New York branch office within six-months of the Commencement Date, the Employee can notify the Company (in accordance with Notice procedures set forth in paragraph 15) of the resignation of his Employment for Good Reason under this Agreement, and if the work location situation is not cured by the Company within 30 days of Company’s receipt of his notice of resignation, Employee’s resignation will be deemed for “Good Reason” (as defined under paragraph 5.2 (b)(v)) and the Company will also accelerate all Loan distributions (to the extent any Loan distributions have not already been distributed) and forgive the repayment of the Loan (as discussed in paragraph 5.2 below).

4. Exclusive Services And Best Efforts . Employee shall devote all of his working time, attention, best efforts and ability during regular business hours exclusively to the service of the Company, its affiliates and subsidiaries during the term of this Agreement. Nothing shall preclude Employee from (i) engaging in charitable activities and community affairs or (ii) managing his personal investments and affairs; provided, however, that such activities do not materially interfere with the proper performance of his duties and responsibilities as an employee of the Company.

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5.1. Compensation and Expenses .

(a) Subject to the limitations set forth in this Agreement, Company shall pay out to the Employee a commission that is *** of the “Net Commissions” generated by Employee (the “Employee’s Commission”).

(b) For purposes of this Agreement, the term “Net Commissions” shall mean gross commissions that are actually received by the Company and derived directly from the Employee’s total purchase and sale of securities from transactions on accounts that are covered by the Employee for the firm, less any and all expenses related to the fees incurred in connection with the purchase or sale transactions effectuated by Employee, and any associated trading system or other costs including,

(i) all actual, third-party transaction costs including execution, brokerage fees, give-up, clearing and/or flip charges, and processing ticket charges;

(ii) all applicable, direct internal transaction costs including execution, brokerage fees, give-up, clearing and/or flip charges, and processing ticket charges;

(iii) all commission rebates relating to equity business payable to introducing brokers or account executives not employed by the Company, if any, which are approved by the Company;

(iv) all bad debts of any Employee customer, including uncollectible commissions;

(v) all errors relating to Employee’s customers’ business;

(vi) reasonable travel, entertainment and meal expenses consistent with the policy determined by Company for such matters, so long as approved by Company management prior to reimbursement;

(vii) expenses incurred directly by Employee related to recruitment, promotion or marketing by or of Employee, in each case as approved by Company management;

Solely for the purposes of this Section 5.1(b), the term “Employee” includes any person working for Employee or in the Institutional Sales Group.

(c) Notwithstanding anything to the contrary contained herein, and for purposes of clarity, in no event shall Company be required to pay Employee’s Commission for those sales whose fees are not actually received by Company.

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(d) Upon his entering into this Agreement, the Company shall grant to Employee *** of "restricted stock". For so long as Employee shall remain in the employ of Company, the "restricted stock" shall vest equally on an annual basis over a four (4) year period (the "Vesting Period") from the Commencement Date, and the initial *** shall begin to vest on the first anniversary of the Commencement Date. All vested stock is not forfeited by the Employee in the event his employment with the Company ends for any reason. In the event of a Change of Control, all previously unvested restricted stock granted by this Section 5.1(d) shall automatically vest with Employee, regardless of the date. For the purposes herein, "Change of Control" shall mean any of the following: (i) direct or indirect acquisition by any person (as the term "person" is used in Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended) of more than fifty percent (51%) of the voting capital stock of the Company, in a single or series of related transactions; (ii) the occurrence of a sale of all or substantially all of the assets of the Company to an entity which is not a direct or indirect subsidiary of the Company; (iii) the occurrence of a reorganization, merger, consolidation or similar transaction involving the Company, unless (A) the shareholders of the Company immediately prior to the consummation of any such transaction will initially own securities representing a majority of the voting power of the surviving or resulting corporation, and (B) the directors of the Company immediately prior to the consummation of such transaction will initially represent a majority of the directors of the surviving or resulting corporation; or (iv) any other event which is at any time irrevocably designated as "Change in Control" for purposes of this Agreement by resolution adopted by a majority of the directors of the Employer.

(e) The Company will grant options for the purchase of common stock of the Company at an exercise price of *** to the Employee in the following amounts in the event Revenue earned by the Institutional Sales Group reaches in the aggregate certain milestones by December 31, 2008 (the "Milestone Date"). The options shall be in the same form and under the same terms as described under the Company's Stock Option Plan. For the purpose of this Agreement, "Revenue" is defined as the total commissions earned by the Company on the purchase and sale of securities from transactions on accounts that are covered by the Institutional Sales Group for the firm. In addition, all stock grants under this section vest immediately upon the Milestone Date, and are not forfeited by the Employee in the event his employment with the Company ends for any reason after the Milestone Date.

<u>Revenue Milestone</u>	<u>Option Grants</u>
***	***
***	***
***	***

(f) Employee agrees that the Company may, at any time, demand and receive payment from the Employee for or deduct from any Employee's Commission payable to Employee under this Agreement, any taxes, withholding payments, license fees, registration fees, ticket charges, bonding fees, or such other expenses, fees or costs payable or chargeable to the Employee which have been paid, accrued or otherwise incurred by the Company on behalf of the Employee in connection with the Employee's duties under this Agreement.

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(g). With respect to Subordinates, Subordinates shall be compensated by the Institutional Sales Group in an amount

***.

5.2 Forgivable Loan.

The Employee hereby acknowledges the future receipt of *** (the “Loan”) to be loaned to Employee by the Company after the execution of this Agreement. The Loan will be distributed to the Employee in five (5) equal installments of *** on the following dates in 2008: May 1, June 1, July 1, August 1 and September 1. The Loan shall accrue interest at the annual rate of *** from the date proceeds are received by Employee, up to and including the *** anniversary of the Commencement Date (the “Due Date”), and if payment of the Loan is accelerated during such period, the total amount due under the Loan plus interest shall be payable on a demand basis. The Loan will be distributed to the Employee on the above distribution dates and the Company cannot use as an excuse for its failure to distribute any installment the fact that it is the subject of any litigation or other event that may impact the business existence of the Company. In the event the Company fails to timely distribute a loan installment, the Employee can notify the Company (in accordance with Notice procedures set forth in paragraph 15) of the missed installment, and if Company does not cure by distributing the installment payment within 30 days of Company’s receipt of this notice, Employee can resign for “Good Reason” (as defined under paragraph 5.2(b)(v)) and the Employee will be entitled to accelerate the outstanding loan installments and make a demand on the Company for the balance of the installments of the Loan, which Employee will be entitled to receive and be excused from paying back. In the event that the Employee is forced to expend legal or other fees in its effort to the collect the accelerated Loan amount due, the Company agrees that such costs shall be borne and payable exclusively by the Company in the event Employee prevails in such action, and that such costs shall begin to accrue interest at the rate of *** from the date Employee ceases to be in the employ of Company.

(a) The Loan shall be evidenced by a Promissory Note executed and delivered on or after the date hereof, the form of which is annexed hereto as Exhibit “A”, and the terms of which incorporated herein by reference.

Employee agrees and acknowledges that the Company shall take out life insurance and disability policies upon the Employee, with the Company as sole beneficiary, in the amount of the Loan and shall keep such policies in force until the Loan is repaid in full.

(b) The Loan will be forgiven as follows:

i. In the event the Employee is employed as of the *** anniversary of the Commencement Date (the “*** Anniversary”), the Company will forgive *** of the Loan and the accrued interest on the forgiven debt. Once forgiven, the Company cannot seek repayment of the forgiven debt that is the subject of this paragraph.

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ii. In the event the Employee is employed as of the *** anniversary of the Commencement Date (the “*** Anniversary”), the Company will forgive the full balance of the Loan, including all accrued interest and will issue to the Employee a written release confirming the cancellation and forgiveness of the debt and the related documents attached as Exhibit A.

iv. In the event that the Company terminates the Employee’s employment without “Good Cause” (as defined herein) prior to the Due Date, the Company agrees to cancel and forgive the Loan and any accrued interest and as such the Employee is not obligated to repay the Loan and any accrued interest, and will issue to the Employee a written release confirming the cancellation and forgiveness of the debt and the related documents attached as Exhibit A. The termination of Employee’s employment will be deemed to have been for “Good Cause” as defined below in paragraph 13.

v. In the event that the Employee terminates the Agreement with “Good Reason” (as defined herein) prior to the Due Date, the Company agrees to cancel and forgive the Loan and any accrued interest and as such the Employee is not obligated to repay the Loan and any accrued interest, and will issue to the Employee a written release confirming the cancellation and forgiveness of the debt and the related documents attached as Exhibit A. “Good Reason” is defined as any of the following events which are not cured by Company within thirty (30) days after receipt of written notice of termination from Employee based on: (1) a significant change in the nature or scope of Employees authorities, powers, functions or duties, or a reduction in compensation; (2) a determination by a court that there has occurred a material breach by the Company of any provision of this Agreement which is not remedied within 30 days after receipt by the Company of written notice from Employee; (3) a Change in Control as defined in Section 5.1(d); (4) Employee providing notice of resignation under paragraph 3(f); or (5) Employee providing notice of resignation under paragraph 5.2 for failure to make a Loan installment payment.

vi. Upon Employee’s termination of this Agreement other than for Good Reason prior to the *** Anniversary Date of the Commencement Date, the Loan, plus interest, shall become immediately due and payable. Upon Employee’s termination of this Agreement other than for Good Reason after the *** Anniversary but prior to the *** Anniversary (the Due Date), the remaining balance of the Loan in the amount not forgiven of *** plus interest shall become immediately due and payable, without further action from the Company on the date employment ceases. In the event that the Company is forced to expend legal or other fees in its effort to the collect the amount due and payable under the Loan and this paragraph 5.2(b), Employee agrees that such costs shall be borne and payable exclusively by Employee, and that such costs shall begin to accrue interest at the rate of *** from the date Employee ceases to be in the employ of Company.

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6. Business Expenses. Subject to 5.1(b), the Employee shall be reimbursed by the Company for those business expenses incurred by him, which are reasonable and necessary for the Employee to perform his duties under this Agreement, upon submission of such accounts and records as may reasonably be required by the policies established from time to time by the Company.

7. Confidentiality. Employee shall keep confidential, except as the Company may otherwise consent in writing, and not disclose or make any use of except for the benefit of the Company and in no way harmful to the Company, at any time either during the term of this Agreement or thereafter, any trade secrets, knowledge, data, intellectual property or other information of the Company relating to the Company and its businesses, including, without limitation, information regarding cost of new accounts, customer lists, customer activity rates and other customer information, technology (hardware and software), discoveries, processes, algorithms, mask works, strategies, products, processes, know how, technical data, designs, formulas, test data, business plans, marketing plans and advertising results or other subject matter pertaining to any business of the Company or any of its clients, customers, consultants, licensees or affiliates which Employee may produce, obtain or otherwise learn of during the course of Employee's performance of services (collectively “**Confidential Information**”). Employee shall not deliver, reproduce, or in any way allow any such Confidential Information to be delivered to or used by any third parties without the specific direction or consent of a duly authorized representative of the Company, except in connection with the discharge of his duties thereunder. The terms of this paragraph shall survive termination of this Agreement. Notwithstanding anything to the contrary herein, Employee shall not have any obligation to keep confidential any information that: (a) is required by law or regulation to be disclosed by Employee, or (b) is required to be disclosed by Employee to any government agency or person to whom disclosure is required by judicial or administrative process or (c) any client information of clients that Employee has had contact while in the Employ of the Company, or (d) any client information or clients that Employee had contact with prior to becoming an Employee of the Company.

7.1 Restriction During Employment. Employee agrees that at no time during his employment with the Company will Employee (i) in any way induce or attempt to induce any employee or registered representative of the Company (or of any affiliate of the Company) or any person, firm or corporation having any contract with the Company (or any affiliate of the Company), either to leave such employment or association with the Company or to breach or terminate its contract with the Company (or with any affiliate of the Company); (ii) in any way induce or attempt to induce any employee or registered representative of the Company (or any affiliate of the Company) or any person, firm or corporation having a contract with the Company (or any affiliate of the Company) to become employed by, associated with or enter into a contract or agreement with another stock brokerage firm or other entity; and (iii) in any way induce or attempt to induce any account, customer and client of the Company from terminating their relationship with the Company or becoming an account, customer and client of another stock brokerage or trading firm or similar entity.

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7.2 Restrictions After Employment.

(a) Employee agrees that for a period of one (1) year after the termination of its employment with the Company, the Employee will not induce or attempt to induce any employee or registered representative of the Company or any other person, firm or corporation having any contract or association with the Company either from leaving such employment or association with the Company or to breach or terminate his or its contract with the Company or in any way induce or attempt to induce any employee or registered representative of the Company (or any affiliate of the Company) or any person, firm or corporation having a contract with the Company (or any affiliate of the Company) to become employed by, associated with or enter into a contract or agreement with another stock brokerage or trading firm or other similar entity.

(b) Employee agrees that for a period of thirty (30) days after the termination of his employment with the Company for whatever reason, the Employee will not engage, as an owner, partner, shareholder, officer, director, employee, consultant, advisor, agent or representative, in any business which competes with the Company or any of its affiliates in trading or executing in equity markets, including but not limited to equity-related products.

8. Return of Confidential Material . Upon the completion or other termination of Employee’s services for the Company, Employee shall promptly surrender and deliver to the Company all records, materials, equipment, drawings, documents, notes and books and data of any nature pertaining to any invention, trade secret or Confidential Information of the Company or to Employee’s services, and Employee will not take with him any description containing or pertaining to any Confidential Information, knowledge or data of the Company which Employee may produce or obtain during the course of his services. The terms of this paragraph shall survive termination of this Agreement.

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9. Other Obligations; Certain Representations.

(a) Employee acknowledges that the Company from time to time may have agreements with other persons which impose obligations or restrictions on the Company made during the course of work there under or regarding the confidential nature of such work. Employee will be bound by all such obligations and restrictions and will take all action necessary to discharge the obligations of the Company there under.

(b) All of Employee's obligations under this Agreement shall be subject to any applicable agreements with, and policies issued by the Company to which Employee is subject, that are generally applicable to the five highest paid executives of the Company.

(c) Employee represents that he has the legal capacity to enter into this Agreement, and has of the Commencement Date he is under no employment contract, non-competition agreement, or any other obligation that would violate or be in conflict with the terms and conditions of this Agreement or encumber his performance of duties assigned to him by the Company other than potential conflicts arising from Employee's previous relationship with eTrade Financial, Inc., or any successor, assignee, or purchaser of any rights of eTrade Financial, Inc. (the "Former Employer"). Employee further represents and warrants that he has not signed or committed to any employment or consultant duties or other obligations that would divert his full attention or conflict with from the duties assigned to him by the Company.

(d) Employee holds all licenses required by FINRA, all applicable self regulatory organizations, and all federal and state securities and other laws necessary to perform services to the Company as contemplated by this Agreement. All such licenses are in full force and effect, and Employee covenants to take such action as is necessary to maintain all such licenses in full force and effect during the term of this Agreement.

(e) If during the first three-years of this Agreement while the Loan is still outstanding the Employee is enjoined from working for the Company by a court of law, the Employee agrees to: (i) return to work to the Company whenever the restraints lapse or are removed or (ii) at the Company's sole discretion, continue to remain in the employ of the Company performing services not prevented from being provided by the Employee under the restraints.

(f) If the Employee is enjoined from working for the Company by a court of law and the Employee decides, in his sole discretion, not to return to work for the Company after the restraints lapse or are removed, in such event the Company may demand the Loan to be repaid by the Employee and the Employee agrees to repay the Loan, interest free, as follows: the Employee will be entitled to keep a prorated portion of the Loan for the period of time the Employee worked during the two-year period accrued through the latest month-end prior to the Employee's last day of work and pay back the balance. For example, if the Employee last worked 45 days into the two-year period, the Employee would be entitled to keep two-months/24-months multiplied by *** of the Loan, or ***, and repay the balance of ***. For the avoidance of doubt, any time during which the Employee was restrained from working for the Company in the role of either SVP of Institutional Sales, Co-Head of the Institutional Sales Group, or in any role generally associated with such positions, and the Company elects not to have the Employee perform any other services for the Company, such time shall not be considered time worked for the previous equation herein. If the Employee refuses to tender said Loan repayment within 60 days of the demand from Company, Employee agrees to reimburse Company for any reasonable costs of collection of such debt, including reasonable attorneys' fees and to pay interest on the debt at an annual rate of *** calculated from the date demand is made by the Company. Notwithstanding the foregoing, if the Employee reports to work after the restraints lapse and the Company refuses to continue Employee's employment or re-employment, the Company cannot demand repayment of the Loan and the Employee is not obligated in any manner to pay back the Loan, and the Employee will also immediately vest in all "restricted stock" under Section 5.1(d).

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(g) Adjustment for Injunction or Other Restraint.

Each of the Company and Employee acknowledge that in the event the Employee may be enjoined or otherwise restrained from performing his duties as SVP of Institutional Sales and/or Co-Head of Institutional Sales for a certain time period (“Time of Restraint”). In such event, the Company may elect during such Time of Restraint, in its sole option, to either (i) request that Employee perform other duties for the Company, or (ii) perform no duties for the Company until such restraints lapse. Only in the event that the Company elects to have Employee perform no duties for the Company during the Time of Restraint, each of the *** Anniversary, *** Anniversary, Due Date and Milestone Date (collectively, the “Defined Dates”) as defined in this Agreement, as well as any other dates based upon any of the Defined Dates, shall be extended by an amount of time equal to the Time of Restraint.

10. Trade Secrets of Others. Employee will not enter into any agreement, either written or oral, which is in conflict with this Agreement.

11. Employee Benefits. During the Agreement Term, the Company agrees to include Employee in its group medical and hospital plan. Employee understands and acknowledges that Employee will be responsible for monthly payments for such insurance at the rate commensurate with other employees of Company. Employee hereby authorizes the Company to deduct the fees accrued for the insurance provided to Employee under this paragraph on a monthly basis from the Employee’s share of net commissions prior to Company’s distribution of the same. Company reserves the right to (i) cancel Employee’s insurance in the event Employee’s share of net commissions is insufficient to cover the monthly insurance expense hereunder, or (ii) require Employee to make such monthly payments in lieu of Company’s deduction of the same from Employee’s share of net commissions. The Company may withhold from any benefits payable to the Employee all federal, state, local and other taxes and amounts as shall be permitted or required pursuant to law, rule or regulation.

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12. Death and Disability.

(a) The Agreement Term shall terminate on the date of Employee's death, in which event the Employee's Commission and reimbursable expenses and benefits, if any, owing to Employee through the date of Employee's death shall be paid to his estate. Employee's estate will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 12(a). For purposes of clarity, and notwithstanding anything contrary herein, should the Employee's death occur prior to the expiring of the Vesting Period set forth in paragraph 5.1 (d) herein the Company shall have no obligation to continue to issue Employee's estate stock, subsequent to the date of Employee's death. Furthermore, should Employee's death occur prior to the Due Date as set forth in paragraph 5.2 herein, the Company shall forgive and cancel the Loan and any accrued interest, and may not seek to recover the same as a collection from Employee's estate.

(b) If, during the Agreement Term, in the opinion of a duly licensed physician acceptable to the Employee and the Company, the Employee because of physical or mental illness or incapacity shall become substantially unable to perform the duties and services required of him under this Agreement for a period of thirty (30) or more consecutive days or an aggregate of thirty (30) days in any twelve-month period (the "Disability"), the Company may, upon at least thirty (30) days' prior written notice (given at any time after the expiration of such period) to the Employee of its intentions to do so, terminate this Agreement as of such date as may be set forth in the notice. In case of such termination, the Employee shall be entitled to receive any remaining Employee's Commission and reimbursable expenses and benefits, if any, owing to the Employee through the date of termination. Furthermore, should Employee's disability occur prior to the Due Date as set forth in paragraph 5.2 herein, the Company shall forgive and cancel the Loan and any accrued interest, and may not seek to recover the same as a collection from Employee or his estate. Employee will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 12(b) and the vesting of the restricted stock granted under 5.1(d) shall cease upon termination of this Agreement for Disability.

13. Good Cause.

(a) As used herein, the term "Good Cause" shall mean:

(i) a material breach by Employee of the terms of this Agreement or the Company's written policies delivered to him, including those with respect to insider trading and other trading activities, which material breach remains uncured after twenty (20) days following Employee's receipt from Company of written notice specifying such breach or default;

(ii) gross negligence or willful misconduct by Employee or the material breach of a fiduciary duty of Employee to the Company in the performance of his duties hereunder;

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(iii) the commission by Employee of an act of fraud, embezzlement or any other crime by Employee in the performance of his duties as an employee hereunder as determined by a court that has jurisdiction over such matters;

(iv) conviction of Employee of a felony or any other crime that could materially interfere with the performance of Employee’s duties hereunder or material damages the reputation of the Company;

(v) failure to hold and maintain in full force and effect during the term of this Agreement, all licenses required by FINRA, all applicable self regulatory organizations (“SRO”), and all federal and state securities and other laws necessary to perform services to the Company as contemplated by this Agreement.

(vi) except as may have been disclosed in writing to the Company, Employee’s failure to disclose to Company prior or existing customer complaints, arbitrations, legal proceedings, or regulatory, administrative, civil or criminal matters threatened or pending, or any other matter which may adversely affect the employment of the Employee by the Company, such as a violation of any rules promulgated by the NASD or another SRO, or any other reportable event that should be disclosed by Employee on Form U-4..

(vii) failure to promptly notify the Company if (i) Employee becomes a party to any inquiry, investigation, litigation, legal proceeding or arbitration, (ii) any award or judgment is entered against Employee; (iii) Employee’s registration or license to sell securities is refused, suspended, threatened or revoked by the SEC, FINRA or any SRO; (iv) Employee becomes subject to a proceeding to effectuate the foregoing; (v) Employee is enjoined, temporarily or otherwise, from selling or dealing in securities; or (vi) Employee is arrested, summoned, arraigned, or indicted in connection with a criminal offense.

(b) As used herein, the term “Good Cause” shall not mean any action or threatened action against either the Company or the Employee, or both, by the Former Employer of Employee to restrain or enjoin Employee’s employment with the Company or the Company’s business, in whole or in part.

(c) Upon Employee’s termination for Good Cause prior to the *** Anniversary Date of this Agreement, the Loan, shall become immediate due and payable pursuant to the terms described in paragraph 5.2 hereunder. Upon Employee’s termination for Good Cause after the *** Anniversary but prior to the *** Anniversary, the remaining balance of the Loan in the amount not forgiven of *** plus interest shall become immediately due and payable, pursuant to the terms described in paragraph 5.2 hereunder. In the event that the Company is forced to expend legal or other fees in its effort to the collect the amount due and payable under the Loan, Employee agrees that such costs shall be borne and payable exclusively by Employee, and that such costs shall begin to accrue interest at the rate of *** from the date Employee ceases to be in the employ of Company.

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14. Remedy. It is mutually understood and agreed that Employee’s services are special, unique, unusual, extraordinary and of an intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages or in an action at law. Accordingly, in the event of any breach of this Agreement by Employee, the Company shall be entitled to equitable relief by way of injunction or otherwise in addition to damages the Company may be entitled to recover. In addition, the Company shall be entitled to reimbursement from Employee, upon request, of any and all reasonable attorneys’ fees and expenses incurred by it in enforcing any term or provision of this Agreement.

15. Notices. All notices given hereunder shall be in writing and shall be deemed effectively given when mailed, if sent by registered or certified mail, return receipt requested, or overnight mail with proof of mailing, to Employee at his address set forth on the first page of this Agreement and to the Company at its address set forth on the first page of this Agreement, Attention: Marty Cunningham, with a copy to Bonnist & Cutro, LLP, 1199 Route 22, Suite 304, Mountainside, New Jersey 07092, Attention: James J. Cutro, Esq., or at such address as such party shall have designated by a notice given in accordance with this Paragraph 15.

16. Entire Agreement. This Agreement constitutes the entire understanding of the parties with respect to its subject matter and no change, alteration or modification hereof may be made except in writing signed by the parties hereto. Any prior or other agreements, promises, negotiations, understandings or representations not expressly set forth in this Agreement are of no force or effect.

17. Severability. If any provision of this Agreement shall be unenforceable under any applicable law, then notwithstanding such unenforceability, the remainder of this Agreement shall continue in full force and effect.

18. Amendments, Modifications, Waivers. No amendment, modification or waiver of any provisions of this Agreement shall be effective unless the same shall be in writing and signed by each of the parties hereto, and then such waiver or consent shall be effective only in specific instances and for the specific purpose for which given.

19. Assignment. Neither this Agreement, nor any of Employee’s rights, powers, duties or obligations hereunder, may be assigned by Employee. This Agreement shall be binding upon and inure to the benefit of Employee and his heirs and legal representatives and the Company and its successors and assigns. Successors of the Company shall include, without limitation, any corporation or corporations acquiring, directly or indirectly, all or substantially all of the assets of the Company, whether by merger, acquisition, consolidation, purchase or otherwise, and such successor shall thereafter be deemed “the Company” for purposes hereof.

20. Applicable Law. This Agreement shall be deemed to have been made, drafted, negotiated and the transactions contemplated hereby consummated and fully performed in the State of New York and shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflicts of law rules thereof.

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DENOTED WITH “***”**

21. Arbitration.

(a) The parties agree that any and all claims or disputes arising under this Agreement, as to which they may be adverse parties, will be resolved by arbitration before FINRA and that with respect to this Agreement, a party may seek injunctive relief and ancillary damages before FINRA. Each party irrevocably consents to subject matter and personal jurisdiction before FINRA. The parties shall restrict themselves to claims for compensatory damages and no claims shall be made by any party for punitive or similar damages. The parties agree that any award or decision by FINRA shall be final and binding upon the parties and a judgment may be entered in a court of competent jurisdiction upon such award or decision. The parties agree that the situs of any arbitration or legal proceedings hereunder shall be the City of New York, State of New York.

(b) The parties agree that in the event that there is a threatened breach or breach of any of the covenants, agreements and representations contained in this Agreement, the Company will suffer immediate and irreparable harm and money damages and as a result thereof, the Company shall have the right to seek injunctive relief before FINRA or through the judicial process in addition to any and all rights and remedies at law or equity it may have. In any such action or proceeding, the Company shall be entitled to reimbursement for all legal fees it may incur. The parties further agree that the Company shall not be required to post any bond with regards to it seeking any equitable or legal relief hereunder.

22. Full Understanding. Employee represents and agrees that he fully understands his right to discuss all aspects of this Agreement with his private attorney, that to the extent, if any that he desired, he availed himself of this right, that he has carefully read and fully understands all provisions of this Agreement, that he is competent to execute this Agreement, that his agreement to execute this Agreement has not been obtained by any duress and that he freely and voluntarily enters into it, and that he has read this document in its entirety and fully understands the meaning, intent and consequences of this document, which is that it constitutes and agreement of employment.

23. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**CONFIDENTIAL TREATMENT REQUESTED
WITH RESPECT TO CERTAIN PORTIONS HEREOF
DENOTED WITH “***”**

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

HUDSON SECURITIES, INC.

By: /s/ Martin Cunningham

Name: Martin Cunningham
Title: CEO

EMPLOYEE

/s/ David Scialabba

Name: David Scialabba

**CONFIDENTIAL TREATMENT REQUESTED
WITH RESPECT TO CERTAIN PORTIONS HEREOF
DENOTED WITH “***”**

PROMISSORY NOTE

David Scialabba, an individual residing 210-B Sunset Road, Oyster Bay, New York 11771 (“Debtor”), promises to pay to **Hudson Securities, Inc.**, a Delaware corporation, having an address of 111 Town Square Place, 15th Floor, Jersey City, New Jersey 07310, hereinafter referred to as “Creditor”, the sum of *** , which represents a forgivable loan owed by the Debtor to the Creditor under the Employment Agreement between the Debtor and Creditor for the period January 22, 2008, through January 21, ***, and interest at the annual rate of *** (the “Loan”) in the event the Loan becomes due under the terms of the Employment Agreement, which is fully adopted and incorporated herein.

Payment shall be made to the order of Creditor at the address of Creditor set forth above, or at such other place as Creditor or any subsequent holder of this Note may designate in the event under the terms of the Employment Agreement the Loan becomes due, as follows:

1) It is the desire and intent of the parties that the terms, provisions, covenants and remedies contained in this Note shall be enforceable to the fullest extent permitted by law. If any term, provision, covenant or remedy of this Note shall, to any extent, be construed to be invalid or unenforceable in whole or in part, then such term, provision, covenant or remedy shall be construed in a manner so as to permit its enforceability under the applicable law to the fullest extent permitted by law. In any case, the remaining provisions of this Note or the application thereof, other than those to which they have been held invalid or unenforceable, shall remain in full force and effect.

2) Should any provision of this Note require interpretation or construction, it is agreed by the parties that the entity interpreting or construing this Note shall not apply a presumption that the provisions hereof shall be more strictly construed against one party by reason of the rule of construction that a document is to be construed more strictly against the party who prepared the Note, it being agreed that both parties (by their respective attorneys) have participated in the preparation of all the provisions of this Note.

3) The laws of the State of New York govern this Note and the validity and performance thereof.

4) This Note and the Employment Agreement embodies the entire understanding between the parties hereto with respect to the subject matter hereof and may not be used as evidence of wrongdoing or as an admission of guilt by either party in any subsequent legal action.

5) This Note may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against whom enforcement of any change, waiver, discharge or termination is to be sought. No waiver of any term or provision of this Note will be deemed a waiver of any subsequent breach of such term or provision, or the breach of any other term or provision of this Note. Failure of any party to claim default of all or any part of this Note by the other party, or failure to enforce all or any of its rights hereunder, will not be construed as a waiver of any subsequent claims or rights or as novation or modification in any way of this Note.

**CONFIDENTIAL TREATMENT REQUESTED
WITH RESPECT TO CERTAIN PORTIONS HEREOF
DENOTED WITH “***”**

6) This Note and any rights herein granted are personal to Creditor, and any assignment (including a merger, sale of majority stock interest or transfer of control of Debtor) by Debtor, or other encumbrance, is void (or shall be deemed to be ineffective in transferring any rights pursuant to this Note) without Creditor’s prior written consent.

7) Creditor has the right to assign the Note.

8) Debtor and any other person who has obligations under this Note waives the rights of presentment and notice of dishonor. “Presentment” means the right to require the Creditor to demand payment of amount due. “Notice of Dishonor” means the right to require the Creditor to give notice to other persons that amounts have not been paid.

9) This Note is a uniform instrument with limited variations in some jurisdictions.

10) The parties hereto all represent that they are duly authorized to enter into this Note.

/s/ David Scialabba

By: David Scialabba

Dated: January 14, 2008

Notary /s/ Farisha W. Mohammed

Certification Pursuant to Rule 13a-14(a)

I, Martin C. Cunningham, hereby certify that:

1. I have reviewed the Quarterly Report on Form 10-QSB of Hudson Holding Corporation for the quarter ended December 31, 2007;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting.
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: February 14, 2008

/s/ Martin C. Cunningham

Martin C. Cunningham,
Chairman and Chief Executive Officer

Certification Pursuant to Rule 13a-14(a)

I, Keith R. Knox, hereby certify that:

1. I have reviewed the Quarterly Report on Form 10-QSB of Hudson Holding Corporation for the quarter ended December 31, 2007;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting.
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: February 14, 2008

/s/ Keith R. Knox

Keith R. Knox,
President and Principal Accounting Officer

CERTIFICATION

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. 1350)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of (18 U.S.C. 1350), the undersigned officer of Hudson Holding Corporation., a Delaware corporation (the "Company"), does hereby certify that, to the best of his knowledge:

- (1) The Quarterly Report on Form 10-QSB for the quarter ended December 31, 2007 (the "Form 10-QSB") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-QSB fairly presents, in all materials respects, the financial condition and results of operations of the Company.

Date: February 14, 2008

/s/ Martin C. Cunningham

Martin C. Cunningham,
Chairman and Chief Executive Officer

CERTIFICATION

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(18 U.S.C. 1350)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of (18 U.S.C. 1350), the undersigned officer of Hudson Holding Corporation, a Delaware corporation (the "Company"), does hereby certify that, to the best of his knowledge:

- (1) The Quarterly Report on Form 10-QSB for the quarter ended December 31, 2007 (the "Form 10-QSB") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Form 10-QSB fairly presents, in all materials respects, the financial condition and results of operations of the Company.

Date: February 14, 2008

/s/ Keith R. Knox

Keith R. Knox,
President and Principal Accounting Officer
