

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2008

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

For the transition period from _____ to _____

Commission file number: 0-9587

HUDSON HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

20-3766053

(State or Other Jurisdiction of Incorporation or
Organization)

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

111 Town Square Place
Suite 1500A
Jersey City, New Jersey

07310

(Address of Principal Executive Offices)

(Zip Code)

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

(Former name and former address, if changed since last report)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 7, 2008, there were 45,125,185 shares of the issuer's common stock outstanding.

HUDSON HOLDING CORPORATION

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HUDSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF FINANCIAL CONDITION

	<u>September 30,</u> <u>2008</u>	<u>March 31,</u> <u>2008</u>
	<u>(unaudited)</u>	
ASSETS		
Cash and cash equivalents	\$ 616,049	\$ 6,172,348
Cash - restricted	249,241	245,505
Receivable from clearing broker	8,063,538	2,475,575
Securities owned, at fair value	4,779,240	2,423,257
Income taxes receivable	419,040	419,041
Furniture, equipment, capitalized software and leasehold improvements, net	1,120,490	959,733
Deferred tax assets	1,326,300	705,000
Other assets	445,783	409,289
Prepaid compensation	2,648,667	2,402,611
Goodwill	1,111,179	1,111,179
	<u>\$ 20,779,527</u>	<u>\$ 17,323,538</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Securities sold, but not yet purchased, at fair value	\$ 1,884,947	\$ 2,778,081
Commissions payable	1,563,809	1,070,511
Accrued expenses and other liabilities	1,700,890	1,399,548
	<u>5,149,646</u>	<u>5,248,140</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; 200,000,000 shares authorized; 52,653,518 shares issued (includes 7,528,333 unvested restricted shares) and 45,125,185 shares outstanding at September 30, 2008, and 45,086,851 shares issued (includes 8,361,666 unvested restricted shares) and 36,725,185 shares outstanding at March 31, 2008	45,125	36,725
Additional paid-in capital	17,143,864	12,631,300
Accumulated deficit	(1,559,108)	(592,627)
	<u>15,629,881</u>	<u>12,075,398</u>
	<u>\$ 20,779,527</u>	<u>\$ 17,323,538</u>

See notes to these consolidated condensed financial statements.

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

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Revenues:				
Trading gains, net	\$ 6,116,833	\$ 3,520,244	\$ 9,634,720	\$ 8,918,206
Commissions and fees	3,242,767	988,529	7,488,220	1,894,055
Interest and other income	352,270	354,900	652,623	476,813
	<u>9,711,870</u>	<u>4,863,673</u>	<u>17,775,563</u>	<u>11,289,074</u>
Expenses:				
Salaries and related costs (1)	2,009,988	1,044,794	4,171,547	2,162,700
Commissions, execution and clearing charges	5,330,999	2,940,786	9,792,576	6,230,772
Communications	1,410,571	1,321,562	2,781,936	2,553,774
Occupancy	319,482	470,618	596,739	837,080
Professional fees (2)	216,287	193,953	789,801	462,784
Business development	220,865	109,563	425,013	245,719
Other	399,931	312,715	740,072	521,872
	<u>9,908,123</u>	<u>6,393,991</u>	<u>19,297,684</u>	<u>13,014,701</u>
Loss before income tax benefit	(196,253)	(1,530,318)	(1,522,121)	(1,725,627)
Income tax benefit	(72,427)	(597,024)	(555,640)	(636,915)
Net loss	<u>\$ (123,826)</u>	<u>\$ (933,294)</u>	<u>\$ (966,481)</u>	<u>\$ (1,088,712)</u>
Loss per share – basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
Weighted average number of shares outstanding - basic and diluted	<u>45,125,185</u>	<u>36,725,185</u>	<u>41,507,698</u>	<u>36,725,185</u>

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
(1) Includes the following amounts related to the recruitment and retention of employees:				
Stock-based compensation	\$ 173,373	\$ 36,389	\$ 434,409	\$ 77,008
Recruitment incentives	658,069	28,305	1,241,444	28,305
	<u>\$ 831,442</u>	<u>\$ 64,694</u>	<u>\$ 1,675,853</u>	<u>\$ 105,313</u>
(2) Includes the following amounts related to the retention of directors and consultants:				
Stock-based compensation	\$ 2,292	\$ 14,097	\$ 168,583	\$ 18,820
	<u>\$ 2,292</u>	<u>\$ 14,097</u>	<u>\$ 168,583</u>	<u>\$ 18,820</u>

See notes to these consolidated condensed financial statements.

HUDSON HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, March 31, 2008	36,725,185	\$ 36,725	\$ 12,631,300	\$ (592,627)	\$ 12,075,398
Option grants - consultants	-	-	4,583	-	4,583
Option grants - employees	-	-	103,319	-	103,319
Restricted stock grants - employees	-	-	331,090	-	331,090
Stock grants - directors	400,000	400	163,600	-	164,000
Issuance of common stock and warrants	8,000,000	8,000	3,909,972	-	3,917,972
Net loss	-	-	-	(966,481)	(966,481)
Balance, September 30, 2008 (unaudited)	<u>45,125,185</u>	<u>\$ 45,125</u>	<u>\$ 17,143,864</u>	<u>\$ (1,559,108)</u>	<u>\$ 15,629,881</u>

See notes to these consolidated condensed financial statements.

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

	Six Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (966,481)	\$ (1,088,712)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	232,275	124,539
Stock-based compensation	602,992	95,828
Commissions receivable reserve provision	973	94,335
Prepaid compensation amortization	1,241,445	28,306
Deferred rent	14,058	110,348
Deferred taxes	(621,300)	(265,789)
Abandoned lease provision	-	75,186
Changes in:		
Receivable from clearing broker	(5,587,963)	(6,355,659)
Securities owned	(2,355,983)	7,260,912
Prepaid compensation	(1,487,500)	(1,019,000)
Income taxes receivable	-	(377,319)
Commissions receivable	(973)	(94,335)
Other assets	(36,494)	(31,938)
Securities sold, but not yet purchased	(893,134)	(2,689,268)
Commissions payable	493,298	83,261
Accrued expenses and other liabilities	287,284	25,490
Net cash used in operating activities	<u>(9,077,503)</u>	<u>(4,023,815)</u>
Cash flows from investing activities:		
Purchase of furniture, equipment, capitalized software and leasehold improvements	(393,032)	(355,518)
Cash subject to restrictions	<u>(3,736)</u>	<u>(5,698)</u>
Net cash used in investing activities	<u>(396,768)</u>	<u>(361,216)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrants, net of issuance costs	<u>3,917,972</u>	<u>-</u>
Net cash provided by financing activities	<u>3,917,972</u>	<u>-</u>
Net decrease in cash and cash equivalents	(5,556,299)	(4,385,031)
Cash and cash equivalents - beginning of period	<u>6,172,348</u>	<u>5,112,275</u>
Cash and cash equivalents - end of period	<u>\$ 616,049</u>	<u>\$ 727,244</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Income taxes	<u>\$ 83,686</u>	<u>\$ 5,500</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-Q. 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 September 30 and March 31, 2008 and the consolidated condensed results of its operations and cash flows for the three and six month periods ended September 30, 2008 and 2007. The results of operations for the three and six month periods ended September 30, 2008 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, 2008 included in Holding's Annual Report on Form 10-K.

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 \$1,011,254 and \$775,456 as of September 30 and March 31, 2008 and had revenues of \$46,316 and \$102,502 and net loss of \$63,270 and \$100,617 for the three and six months ended September 30, 2008 and had revenues of \$27,419 and \$59,263 and net losses of \$14,978 and \$11,003 for the three and six months ended September 30, 2007. The Company has offices in New Jersey and Florida.

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.

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. 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. Commissions and fees include agency commissions and fees earned on riskless principal trades. Riskless principal trades are transacted through the firm's proprietary account with a customer order in hand, resulting in no market risk to the firm. 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 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 \$700,715 and \$536,672 represent 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 September 30 and March 31, 2008, respectively. In addition, \$88,814 and \$87,781 of unamortized capitalized software development costs represents software that is still in development and is not being amortized as of September 30 and March 31, 2008, respectively.

[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.

[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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

[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 clearing brokers to process transactions and maintain customer accounts. The clearing brokers extend credit to Hudson's clientele. 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 brokers 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.

The Company's cash and cash equivalents consist of cash balances at various financial institutions. As of September 30, 2008, the cash balances were insured by the Federal Deposit Insurance Corporation (the "FDIC") up to \$100,000 per institution (effective October 3, 2008 until December 31, 2009, the FDIC increased insured deposit limits to \$250,000 per institution). The Company also maintains accounts with its clearing broker. These accounts contain cash and securities. Balances are insured up to \$500,000 (with a limit of \$100,000 for cash) by the Securities Investor Protection Corporation. The Company's balances generally exceed these limits.

[7] Goodwill:

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. There were no trigger events during the six months ended September 30, 2008.

[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 September 30 and March 31, 2008, the Company had \$85,820 and \$84,847, respectively, of commissions receivable offset by a reserve of the same amount.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

[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] Loss per share:

Basic loss per share ("EPS") has been calculated by dividing net loss 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 restricted stock, stock options or warrants were vested, exercised or converted into common stock.

Potentially dilutive securities realizable from the vesting of restricted stock, the exercise of warrants and the exercise of options of 7,528,333, 11,122,774 and 4,503,333, respectively, for the three and six months ended September 30, 2008, and potentially dilutive securities realizable from the exercise of warrants and options of 7,122,774 and 2,036,667, respectively, for the three and six months ended September 30, 2007, are excluded from the computation of diluted net (loss) earnings per share because the effect of their inclusion would have been anti-dilutive.

[11] Recently issued accounting standards:

In May 2008, the FASB issued SFAS 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS 162 identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with Generally Accepted Accounting Principles ("GAAP") for nongovernmental entities. SFAS 162 is effective 60 days following the September 16, 2008 SEC approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." At this time management is evaluating the implications of SFAS 162 and its impact on the financial statements has not yet been determined.

NOTE C - RECEIVABLE FROM CLEARING BROKER

At September 30 and March 31, 2008, the receivable from clearing broker amounts in the consolidated condensed statements 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 September 30 and March 31, 2008 consisted of:

	<u>At September 30, 2008</u>	<u>At March 31, 2008</u>
	(unaudited)	
Securities Owned:		
Equity securities - marketable at fair value	\$ 4,691,520	\$ 2,423,257
Equity securities - not readily marketable, at estimated fair value	<u>87,720</u>	<u>-</u>
Equity securities - total	<u>\$ 4,779,240</u>	<u>\$ 2,423,257</u>
Securities Sold, but not yet Purchased:		
Equity securities - marketable at fair value	\$ 1,884,947	\$ 2,661,629
Equity securities - not readily marketable, at estimated fair value	<u>-</u>	<u>116,452</u>
Equity securities - total	<u>\$ 1,884,947</u>	<u>\$ 2,778,081</u>

Fair Value Measurements

The Company adopted SFAS 157, "Fair Value Measurements," in the quarter ended June 30, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or developed by the Company. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1 — Valued based on quoted prices at the measurement date for identical assets or liabilities trading in active markets. Financial instruments in this category generally include actively traded equity securities.

Level 2 — Valued based on (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active; (c) inputs other than quoted prices that are observable for the asset or liability; or (d) from market corroborated inputs. Financial instruments in this category include certain corporate equities that are not actively traded or are otherwise restricted.

Level 3 — Valued based on valuation techniques in which one or more significant inputs is not readily observable. Included in this category are certain corporate debt instruments, certain private equity investments, and certain commitments and guarantees.

As of September 30, 2008:

Securities owned, at fair value	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 4,691,520	\$ 87,720	\$ -	\$ 4,779,240
Total	<u>\$ 4,691,520</u>	<u>\$ 87,720</u>	<u>\$ -</u>	<u>\$ 4,779,240</u>
Securities sold, but not yet purchased, at fair value				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 1,884,947	\$ -	\$ -	\$ 1,884,947
Total	<u>\$ 1,884,947</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,884,947</u>



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

Fair Value Measurements, continued

The adoption of SFAS 157 did not have a material effect on the Company's condensed consolidated financial statements.

In February 2008, FASB Staff Position FAS 157-2 ("FSP FAS 157-2") was issued. FSP FAS 157-2 delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The delay was intended to allow additional time to consider the effect of various implementation issues that have arisen from the application of SFAS 157. The Company believes that FSP FAS 157-2 will not have a material impact on the Company's condensed consolidated financial statements.

In October 2008, the FASB issued Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP FAS 157-3). FSP FAS 157-3 applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with Statement No. 157. FSP FAS 157-3 clarifies the application of Statement No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 is effective upon issuance and is to be applied to prior periods for which financial statements have not been issued. We have adopted FSP FAS 157-3 effective October 10, 2008. The adoption of FSP FAS 157-3 has not materially affected our financial position, results of operations or cash flows.

Fair Value Option

SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities", 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, with changes in fair value recognized in earnings as they occur. SFAS 159 permits the fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The difference between the carrying value and fair value at the election date is recorded as a transition adjustment to opening retained earnings. SFAS 159 became effective April 1, 2008, however, the Company did not elect to apply the fair value option to any assets or liabilities that are not currently required to be measured at fair value.

NOTE E - PREPAID COMPENSATION

At September 30 and March 31, 2008, Hudson had \$4,506,500 and \$3,019,000 of outstanding loans to employees which were provided as an incentive for joining 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 and interest, or a portion thereof, if the employees remain employed with Hudson for a certain duration. The loans are being expensed on a straight-line basis over the periods specified in the employment agreements. Recruitment incentive expense charged to salaries and related costs in the Consolidated Condensed Statements of Operations were \$706,215 and \$1,329,142 for the three and six months ended September 30, 2008, respectively, and \$29,088 for both the three and six months ended September 30, 2007.

On September 8, 2008, one of the employees with an outstanding loan resigned from the Company. This individual joined the Company on September 7, 2007 and, in accordance with the negotiated arrangement, the Company repaid a \$1,019,000 debt to his former employer. The employee signed a \$1,019,000 promissory note evidencing his indebtedness to the Company and a 4% interest rate on the note balance. The employee also signed an employment agreement, which evidenced the negotiated arrangement, whereby half of the loan and the related interest was scheduled to be forgiven on the first anniversary (September 7, 2008) of his employment and the other half was scheduled to be forgiven on the second anniversary of his employment (September 7, 2009), subject to his having deposited certain required payroll tax withholding amounts with the Company. Based on the terms of the employment agreement, the Company has been amortizing the loan balance ratably over the course of the two year forgiveness period and, accordingly, the book value of the loan on the resignation date was \$509,500, or half of the \$1,019,000 original loan balance.

On September 9, 2008, the Company's attorneys sent a letter to the former employee demanding that he immediately repay the \$1,019,000 loan amount, plus interest, because he never made the required payroll tax withholding amounts. On September 12, 2008, the former employee's attorney sent a letter to the Company's attorneys indicating that they disagreed with the Company's claim and that their client did not owe any money to the Company. On September 29, 2008, the Company filed a Statement of Claim with the FINRA Dispute Resolution arbitrators, claiming for (a) a repayment of the \$1,019,000 loan amount, plus interest; (2) reimbursement of \$336,341 of commission overpayments; plus (c) reimbursement of legal fees and other costs associated with the arbitration proceeding. On September 30, 2008, FINRA Dispute Resolution sent a letter to the former employee informing him that he must respond to the Company's claim by no later than November 16, 2008.

NOTE E - PREPAID COMPENSATION, continued

The Company has maintained the book value of this loan at \$509,500 as of September 30, 2008. Generally accepted accounting principles do not permit the recording of a gain contingency in order to write-up the book value of the loan to \$1,019,000, which is the amount being claimed. Furthermore, generally accepted accounting principles indicate that a loss contingency should be recorded if a loss is probable and estimable. The Company did not record a loss contingency because management believes that it is more likely than not that it will obtain an arbitration judgment and that it will be collectible. Notwithstanding the foregoing, there can be no assurance as to the outcome of the arbitration proceeding.

NOTE F - STOCKHOLDERS' EQUITY

[1] Private placement:

On June 20, 2008, the Company consummated a private placement of its securities (the "Private Placement") in accordance with a Securities Purchase Agreement (the "Agreement") entered into between the Company and a certain accredited investor (the "Investor"), dated June 20, 2008. The Company sold for a purchase price of \$4,000,000, an aggregate of 8,000,000 shares of common stock in the Company (the "Shares") and a warrant (the "Warrant") to purchase an aggregate of 4,000,000 Shares. The Warrant entitles the holder to purchase shares of the Company's common stock (the "Warrant Shares") for a period of five years from the date of issuance at an exercise price of \$0.75 per share. The holder of the Warrant is entitled to certain registration and anti-dilution rights.

The Company's net proceeds from the Private Placement were \$3,917,972, after deducting \$82,028 of professional fees.

[2] Warrants:

At September 30, 2008, the following warrants are outstanding:

- A warrant to purchase 4,000,000 shares of common stock at a price of \$0.75 per share which expires in 2013. This warrant is callable by the Company on terms specified in the warrant.
- Warrants to purchase 4,787,664 and 574,520 shares of common stock at a price of \$0.85 and \$0.60 per share, respectively, which expire in 2011. These warrants are redeemable by the Company on terms specified in the warrant.
- Warrants to purchase 1,760,590 shares of common stock at a price of \$1.0494 per share which 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.

[3] 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, as amended, 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 22,000,000 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.

[4] Stock option grants:

The Company recognized \$52,099 and \$103,319 during the three and six months ended September 30, 2008 and \$36,389 and \$77,008 during the three and six months ended September 30, 2007, 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 September 30, 2008, there was \$352,156 of unrecognized employee stock-based compensation expense related to stock option grants that will be amortized over a weighted average period of 1.8 years.

NOTE F - STOCKHOLDERS' EQUITY, continued

[4] 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 \$4,583 as professional fees expense for the three and six months ended September 30, 2008 and a credit of \$903 and a charge of \$3,820 for the three and six months ended September 30, 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.

In addition, the Company recognized \$15,000 of professional fees expense related to immediately vested director stock option grants during the three and six months ended September 30, 2007.

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. 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.

In applying the Black-Scholes option pricing model at grant date, the Company used the following weighted average assumptions:

	For the three months ended September 30,		For the six months ended September 30,	
	2008	2007	2008	2007
Risk free interest rate	n/a%	4.19%	2.72%	4.33%
Expected term (years)	n/a	2.61	3.25	2.56
Expected volatility	n/a%	65%	65%	65%
Expected dividends	n/a	—	—	—

The weighted average estimated grant date fair value of the stock options granted during the six months ended September 30, 2008 was \$0.15 per share and was \$0.20 and \$0.24 per share during the three and six months ended September 30, 2007, respectively.

A summary of options activity during the six months ended September 30, 2008, is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value
Balance, March 31, 2008	3,495,000	\$ 0.90		
Granted	1,365,000	0.65		
Exercised	-	-		
Forfeited	(356,667)	0.71		
Balance, September 30, 2008	<u>4,503,333</u>	<u>\$ 0.84</u>	<u>2.5</u>	<u>\$ -</u>
Exercisable, September 30, 2008	<u>1,023,336</u>	<u>\$ 0.72</u>	<u>2.2</u>	<u>\$ -</u>

NOTE F - STOCKHOLDERS' EQUITY, continued

[4] Stock option grants, continued:

The following table presents information related to stock options at September 30, 2008:

Options Outstanding		Options Exercisable	
Exercise Price	Number of Options	Weighted Average Remaining Life In Years	Number of Options
\$ 0.35	110,000	2.4	110,000
0.40	75,000	3.8	75,000
0.49	305,000	2.5	305,000
0.60	750,000	-	-
0.75	290,000	-	-
0.80	250,000	2.1	83,333
0.90	418,333	1.8	144,998
1.00	2,225,000	1.6	241,671
1.15	30,000	2.9	30,000
1.46	50,000	1.2	33,334
	<u>4,503,333</u>	2.2	<u>1,023,336</u>

[5] Stock grants:

The Company recognized \$121,274 and \$331,090 during the three and six months ended September 30, 2008 and none during the three and six months ended September 30, 2007 of compensation expense related to employee restricted stock grants, which is reflected as salaries and related costs in the consolidated condensed statement of operations. As of September 30, 2008, there was \$2,139,725 of unrecognized employee stock-based compensation expense related to restricted stock grants that will be amortized over a weighted average period of 3.1 years.

On May 5, 2008, the Company granted 100,000 shares of immediately vested stock to each of four non-employee directors, pursuant to the 2007 plan, for a total of 400,000 shares at a market value of \$0.41. Accordingly, the \$164,000 grant date fair value of the grants resulted in an immediate charge to professional fees in the Consolidated Condensed Statement of Operations, pursuant to SFAS 123(R).

A summary of non-vested restricted stock activity for the six months ended September 30, 2008 is presented in the table below:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested, March 31, 2008	8,361,666	\$ 0.39
Granted	400,000	0.41
Vested	(400,000)	0.41
Forfeited	(833,333)	0.60
Non-vested, September 30, 2008	<u>7,528,333</u>	\$ 0.37

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. The Company maintained the original Jersey City office space as a back-up site until shortly before the lease expired on November 30, 2007. 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. The Company also leases 2,020 rentable square feet of office space in Boca Raton, Florida. This lease expires on April 30, 2012, but the Company has a one-time option to terminate the lease on April 30, 2010.

As of September 30 and March 31, 2008, the Company had a deferred lease liability of \$247,822 and \$233,764, respectively, 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 Consolidated Condensed Statements of Financial Condition.

Future minimum commitments related to non-cancelable operating leases as of September 30, 2008 are as follows:

Years Ended September 30,	Office Leases	Equipment Leases	Total
2009	\$ 524,000	\$ 31,000	\$ 555,000
2010	532,000	10,000	542,000
2011	511,000	1,000	512,000
2012	517,000	-	517,000
2013	-	-	-
	<u>\$ 2,084,000</u>	<u>\$ 42,000</u>	<u>\$ 2,126,000</u>

Rent expense, net of sublease income, was approximately \$294,000 and \$571,000 for the three and six months ended September 30, 2008 and \$471,000 and \$837,000 for the three and six months ended September 30, 2007, respectively.

[2] Employment agreements:

On January 4, 2007, the Company 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. The agreements, as amended, 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.

The Company has outstanding employee loan commitments of \$262,500, which were provided as an incentive for joining the Company and will be funded in installments between October and December 2008. Employee loans are evidenced by promissory notes, bear interest at rates of 4-5%, will be forgiven over contractual service periods and are amortized on a straight-line basis over the same service period.

NOTE G - COMMITMENTS AND CONTINGENCIES, continued

[2] Employment agreements, continued:

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

	Years Ended September 30,	
	2009	\$ 687,500
	2010	400,000
	2011	400,000
	2012	100,000
	2013	0
		<u>\$ 1,587,500</u>

[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 Consolidated Condensed Statements of Financial Condition.

[4] Contingencies:

The Company has been named as a defendant in various actions relating to its activities as a broker-dealer including a civil action and a regulatory investigation. On May 5, 2008, Hudson received a letter from FINRA alleging certain violations. On June 16, 2008, Hudson submitted a response to FINRA. On or about October 7, 2008, the Company agreed to settle with FINRA on a violation limited to failure to tailor anti-money laundering procedures to include market making and trading, plus a \$10,000 fine. The Company is in the process of negotiating the settlement language with FINRA and expects to conclude the matter shortly. From time to time, the Company is also involved in arbitrations and proceedings by self-regulatory organizations. Management believes it has meritorious defenses to all such actions brought against the Company 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. On September 29, 2008, the Company filed a Statement of Claim with a self-regulatory organization against a former employee. See Note E for additional details.

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 September 30, 2008, Hudson had net capital of \$7,088,324, which was \$6,088,324 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. Services valued at \$99,605 and \$170,794 were provided to the Company by this consulting firm during the three and six months ended September 30, 2007, most of which was capitalized as internally developed software (see Note B[3]). Of these amounts, none remained unpaid as of September 30 and March 31, 2008.

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 active employee who accounted for 21% and 17% of total revenues, which included revenues from a single customer that accounted for 12% and 8% of total revenues, during the three and six months ended September 30, 2008, respectively. Another active employee accounted for 20% and 15% of total revenues during the three and six months ended September 30, 2007, respectively. An employee resigned on September 8, 2008 that generated 12% of total revenues during the six months ended March 31, 2008 and 5% of total revenues during the six months ended September 30, 2008.

NOTE K - INCOME TAXES

The principal components of the net deferred tax asset are as follows:

	September 30, 2008	March 31, 2008
Deferred taxes:		
Net operating loss carryforwards (Federal and State)	\$ 201,300	\$ 290,000
State minimum tax carryforward credits	121,000	67,000
Reserve for commissions receivable and bad debts	54,000	55,000
Prepaid compensation amortization	783,000	252,000
Contributions carryforward deductions	22,000	17,000
Deferred rent	96,000	93,000
Stock-based compensation	368,000	193,000
Excess of tax over book basis of fixed assets	75,000	63,000
Total gross deferred tax assets	1,720,300	1,030,000
Excess of book over tax basis of capitalized software	(267,000)	(212,000)
Net deferred tax asset before valuation allowance	1,453,300	818,000
Valuation allowance	(127,000)	(113,000)
Net deferred tax asset	<u>\$ 1,326,300</u>	<u>\$ 705,000</u>

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 through March 31, 2007, remain subject to exam. The Company had approximately \$1,603,000 of federal net operating losses ("NOLs") that were generated during the fiscal year ended March 31, 2008, of which (a) approximately \$1,231,000 are 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 \$372,000 of federal NOL carryforwards which expire in 2028 and are offsetting current year taxable income of the same amount. In addition, the Company has approximately \$2,325,000 of state NOL carryforwards, which expire between 2011 and 2015. As of September 30, 2008, based on the Company's projections of future taxable income, the Company believes that it is more likely than not that the future tax benefits associated with the net deferred tax asset will be realized.

NOTE L - SUBSEQUENT EVENT

On November 13, 2008, the Company granted options to certain employees to purchase an aggregate of 550,000 shares of common stock at an exercise price of \$0.50. The options expire after three and a half years. The \$55,000 grant date fair value will be amortized over the three year vesting period.

ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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-K for the year ended March 31, 2008 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. The current financial crisis has had the near term impact of increasing market volatility, thereby increasing our trading volume. However, weak economic conditions could ultimately 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 September 30, 2008 compared to three months ended September 30, 2007

Consolidated Statement of Operations Data:	Three Months Ended	Three Months Ended
	September 30, 2008	September 30, 2007
	(unaudited)	(unaudited)
Trading gains, net	\$ 6,116,833	\$ 3,520,244
Commissions and fees	3,242,767	988,529
Interest and other	352,270	354,900
Total revenues	\$ 9,711,870	\$ 4,863,673
Net income (loss)	\$ (123,826)	\$ (933,294)

We had overall revenues consisting of commission and fee revenues, net trading gains, plus interest and other income of \$9,711,870 for the three months ended September 30, 2008 as compared to \$4,863,673 for the three months ended September 30, 2007, an increase of \$4,848,197 or 100%. Net trading gains were \$6,116,833 compared to \$3,520,244 during the same period in the prior year, an increase of \$2,596,589 or 74%, due to the addition of trading-focused sales traders. Commission and fee revenues were \$3,242,767 compared to \$988,529 during the same period last year, an increase of \$2,254,238 or 228%, due to a significant expansion of our institutional sales effort. Interest and other income were \$325,270 compared to \$354,900 during the comparable period last year, a decrease of \$2,630, or 1%, primarily due to an increase in interest earned on employee loans, offset by a decrease in fees from introducing brokers and reduced clearing broker interest expense.

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 45% of our employees are salaried, while most of our traders and salespersons receive revenue-based commission payments.

Commission payouts were \$4,509,540 (46% of revenues) in the three months ended September 30, 2008 compared to \$2,584,866 (53% of revenues) in the comparable prior year period, an increase of \$1,924,674 or 75%. The commission payouts declined as a percentage of revenues, primarily due to the shift in the revenue mix toward lower-payout trading revenues. Execution and clearance charges were \$821,459 (8% of revenues) in the three months ended September 30, 2008 as compared to \$355,920 (7% of revenues) in the three months ended September 30, 2007, an increase of \$465,539 or 131%, primarily due the increase in revenues. Communication costs were \$1,410,571 in the quarter ending September 30, 2008 compared to \$1,321,562 in the same quarter last year, an increase of \$89,009 or 7%, primarily due to additional equipment and services required for new hires. Occupancy costs were \$319,482 in the quarter ending September 30, 2008 compared to \$470,618 in the same quarter last year, a decrease of \$151,136 or 32%, due to the expiration of our lease at our former headquarters location.

Salaries and related costs were \$2,009,988 compared to \$1,044,794 in the comparable quarter in the prior year, an increase of \$965,194 or 92%, primarily due to an increase in stock-based compensation expense and other recruiting incentives. Professional fees were \$216,287 compared to \$193,953 in the comparable quarter in the prior year, an increase of \$22,334 or 12%, primarily due to an increase in legal and accounting services. Business development expenses were \$220,865 in the quarter ending September 30, 2008 compared to \$109,563 in the prior period quarter, an increase of \$111,302 or 102%, due to an expansion of our marketing efforts. Other expenses were \$399,931 in the quarter ending September 30, 2008 compared to \$312,715 in the prior period quarter, an increase of \$87,217 or 28%, primarily due to increased software amortization and maintenance expense, regulatory costs and insurance expense, partially offset by a decrease in bad debt expense.

The pre-tax loss was \$196,253 for the three months ended September 30, 2008, compared to a pre-tax loss of \$1,530,318 for the three months ended September 30, 2007. The pre-tax loss decreased, primarily due to the increase in revenues, partially offset by increased recruiting incentives. There was a net loss of \$123,826 for the three months ended September 30, 2008 as compared to a net loss of \$933,294 during the same quarter last year. The income tax benefit was \$72,427 for the three months ended September 30, 2008, compared to the income tax benefit of \$597,024 for the three months ended September 30, 2007, primarily due to the smaller pre-tax loss.

Six months ended September 30, 2008 compared to six months ended September 30, 2007

Consolidated Statement of Operations Data:	Six Months Ended September 30, 2008	Six Months Ended September 30, 2007
	(unaudited)	(unaudited)
Trading gains, net	\$ 9,634,720	\$ 8,918,206
Commissions and fees	7,488,220	1,894,055
Interest and other	652,623	476,813
Total revenues	\$ 17,775,563	\$ 11,289,074
Net income (loss)	\$ (966,481)	\$ (1,088,712)

We had overall revenues consisting of commission and fee revenues, net trading gains, plus interest and other income of \$17,775,563 for the six months ended September 30, 2008 as compared to \$11,289,074 for the six months ended September 30, 2007, an increase of \$6,486,489 or 58%. Net trading gains were \$9,634,720 compared to \$8,918,206 during the same period in the prior year, an increase of \$716,514 or 8%, due to the addition of trading-focused sales traders. Commission and fee revenues were \$7,488,220 compared to \$1,894,055 during the same period last year, an increase of \$5,594,165 or 295%, due to a significant expansion of our institutional sales effort. Interest and other income were \$652,623 compared to \$476,813 during the comparable period last year, an increase of \$175,810, or 37%, primarily due to an increase in interest on employee loans and reduced clearing broker interest expense.

Commission payouts were \$8,461,251 (48% of revenues) in the six months ended September 30, 2008 compared to \$5,450,294 (48% of revenues) in the comparable prior year period, an increase of \$3,010,957 or 55%. The commission payouts declined as a percentage of revenues, primarily due to the shift in the revenue mix toward lower-payout trading revenues. Execution and clearance charges were \$1,331,326 (7% of revenues) in the six months ended September 30, 2008 as compared to \$780,478 (7% of revenues) in the six months ended September 30, 2007, an increase of \$550,847 or 71%, primarily due to the increase in revenues. Communication costs were \$2,781,936 in the six months ending September 30, 2008 compared to \$2,553,774 in the same period last year, an increase of \$228,162 or 9%, primarily due to additional equipment and services required for new hires. Occupancy costs were \$596,739 in the six months ending September 30, 2008 compared to \$837,080 in the same period last year, a decrease of \$240,341 or 292%, due to the expiration of our lease at our former headquarters location.

Salaries and related costs were \$4,171,547 compared to \$2,162,700 in the comparable period in the prior year, an increase of \$2,008,847 or 93%, primarily due to an increase in stock-based compensation expense, bonus payments, and other recruiting incentives. Professional fees were \$789,801 compared to \$462,784 in the comparable period in the prior year, an increase of \$327,017 or 71%, primarily due to an increase in director stock-based compensation expense, plus expanded legal and accounting services. Business development expenses were \$425,013 in the six months ending September 30, 2008 compared to \$245,719 in the same period last year, an increase of \$179,294 or 73%, due to an expansion of our marketing efforts. Other expenses were \$740,072 in the six months ending September 30, 2008 compared to \$521,872 in the same period last year, an increase of \$218,200 or 42%, due to increased software amortization and maintenance expense and subscription expense, partially offset by a decline in bad debt expense.

The pre-tax loss was \$1,522,121 for the six months ended September 30, 2008, compared to a pre-tax loss of \$1,725,627 for the six months ended September 30, 2007. The pre-tax loss decreased, primarily due to the increase in revenues, partially offset by increased recruiting incentives. There was a net loss of \$966,481 for the six months ended September 30, 2008 as compared to a net loss of \$1,088,712 during the same period last year. The income tax benefit was \$555,640 for the six months ended September 30, 2008, compared to the income tax benefit of \$636,915 for the six months ended September 30, 2007, primarily due to the smaller pre-tax loss.

Liquidity and Capital Resources

Consolidated Balance Sheet Data:	As of September 30, 2008 (unaudited)	As of March 31, 2008
Working capital	\$ 9,325,403	\$ 6,899,114
Total assets	\$ 20,779,527	\$ 17,323,538
Total liabilities	\$ 5,149,646	\$ 5,248,140
Stockholders' equity	\$ 15,629,881	\$ 12,075,398

Working Capital

Our working capital (current assets less current liabilities) increased to \$9.3 million at September 30, 2008 from \$6.9 million at March 31, 2008, primarily as a result of the receipt of the \$3.9 million net private placement proceeds, less \$1.5 million of additional recruiting incentive payments. Current assets include cash, receivable from clearing broker (cash on deposit with our clearing broker), marketable securities, income taxes receivable and most other assets. All liabilities, except approximately \$0.2 million of long-term deferred rent, are current liabilities.

We have not declared and paid, nor do we expect to declare and pay in the intermediate future, any dividends on our common stock. On November 13, 2008, our Board authorized the repurchase of up to 1,000,000 shares of our common stock, at the discretion of management.

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 (investment banking, fixed income, options, etc.) including possible synergistic 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 and F 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. We still expect that any further significant expansion or acquisition opportunities may require additional subordinated debt or equity 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). 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 decreased by \$5,556,299 to \$616,049 during the six months ended September 30, 2008, after decreasing by \$4,385,031 to \$727,244 during the six months ended September 30, 2007. However, it should be noted that our cash position is primarily a function of the extent to which our funds are deployed in marketable securities or on deposit with our clearing broker.

Operating Activities

Net cash used in operating activities was \$9,077,502 during the six months ended September 30, 2008, primarily as a result of depositing an incremental \$5,587,963 of cash with our clearing broker, a \$3,249,117 increase in net securities positions and a \$1,487,500 increase in prepaid compensation. Net cash used in operating activities was \$4,023,815 during the six months ended September 30, 2007, primarily as a result of depositing an incremental \$6,355,659 of cash with our clearing broker, the extension of a \$1,019,000 forgivable loan to a new salesperson as a recruiting incentive, a loss after non-cash addbacks of \$825,959 and a \$377,319 increase in income tax receivables, partially offset by a \$4,571,644 increase in cash due to a reduction of our net security positions.

Investing Activities

Net cash used in investing activities was \$396,768 during the six months ended September 30, 2008 and \$361,216 during the six months ended September 30, 2007, primarily due to the ongoing development of capitalized software.

Financing Activities

Net cash provided by financing activities was \$3,917,972 during the six months ended September 30, 2008, due to the receipt of the net private placement proceeds. There was no net cash provided by financing activities during the six months ended September 30, 2007.

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 September 30, 2008, we had no other off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Policies

There are no material changes from the critical accounting policies set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our Annual Report on Form 10-K for the year ended March 31, 2008, except for the changes set forth below. Please refer to that section and the information below for disclosures regarding the critical accounting policies related to our business.

Fair Value Measurements

We adopted SFAS 157 in the first quarter of 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, we often utilize certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable firm inputs. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 — Valued based on quoted prices at the measurement date for identical assets or liabilities trading in active markets. Financial instruments in this category generally include actively traded equity securities.

Level 2 — Valued based on (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active; (c) inputs other than quoted prices that are observable for the asset or liability; or (d) from market corroborated inputs. Financial instruments in this category include certain corporate equities that are not actively traded or are otherwise restricted. Financial instruments in this category include certain corporate equities that are not actively traded or are otherwise restricted.

Level 3 — Valued based on valuation techniques in which one or more significant inputs is not readily observable. Included in this category are certain corporate debt instruments, certain private equity investments, and certain commitments and guarantees.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4: CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), such as this quarterly report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Internal controls are procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized, recorded and reported; and (2) our assets are safeguarded against unauthorized or improper use, to permit the preparation of our consolidated condensed financial statements in conformity with United States generally accepted accounting principles.

As of the end of the period covered by this quarterly report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") concluded that, as of the end of the period covered by this quarterly report on Form 10-Q, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The Company has been named as a defendant in various actions relating to its activities as a broker-dealer including a civil action and a regulatory investigation. On May 5, 2008, Hudson received a letter from FINRA alleging certain violations. On June 16, 2008, Hudson submitted a response to FINRA. On or about October 7, 2008, the Company agreed to settle with FINRA on a violation limited to failure to tailor anti-money laundering procedures to include market making and trading, plus a \$10,000 fine. The Company is in the process of negotiating the settlement language with FINRA and expects to conclude the matter shortly. From time to time, the Company is also involved in arbitrations and proceedings by self-regulatory organizations. Management believes it has meritorious defenses to all such actions brought against the Company 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. On September 29, 2008, the Company filed a Statement of Claim with FINRA Dispute Resolution, claiming a former employee for (a) repayment of a \$1,019,000 loan, plus interest; (2) reimbursement of \$336,341 of commission overpayments; plus (c) reimbursement of legal fees and other costs associated with arbitration proceeding. On September 30, 2008, FINRA Dispute Resolution sent a letter to the former employee informing him that he must respond to the Company's claim by no later than November 16, 2008.

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

During the quarter ended September 30, 2008, the Company did not repurchase any of its equity securities. On November 13, 2008, the Company's Board authorized the repurchase of up to 1,000,000 shares of the Company's common stock, at the discretion of the Company's management.

Item 3. Defaults Upon Senior Securities.

None.

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

The following matters were submitted to a vote of security holders at our annual meeting held at the offices of the Company in Jersey City, New Jersey on August 13, 2008.

Proposal 1. To elect seven Directors to the Board of Directors to serve until the 2009 Annual Meeting of Stockholders or until their successors have been duly elected or appointed and qualified:

Director	For	Withheld
Martin C. Cunningham	38,970,951	9,084
Keith R. Knox	38,970,951	9,084
Mark Leventhal	38,970,951	9,084
Peter J. Zugschwert	38,845,951	134,084
Joanne V. Landau	38,970,988	9,047
Carmine V. Chiusano	38,970,988	9,047
Mark Bisker	38,970,988	9,047

Proposal 2. To amend the Company's Certificate of Incorporation to increase the amount of the Company's authorized shares from 101,000,000 shares, comprised of 100,000,000 shares of common stock, par value \$.001 per share and 1,000,000 shares of preferred stock to 201,000,000 shares, comprised of 200,000,000 shares of common stock and 1,000,000 shares of preferred stock:

For	Against	Abstain
35,228,334	220,300	95

Item 5. Other Information.

None.

Item 6. Exhibits

- 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*
- 99.1 Press Release Related to Hudson Holding Corporation's Earnings for the Three and Six Months Ended September 30, 2008

* The Exhibit attached to this Form 10-Q 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: November 14, 2008

By: /s/ Martin C. Cunningham

Name: Martin C. Cunningham

Title: Chairman and Chief Executive Officer

Dated: November 14, 2008

By: /s/ Keith R. Knox

Name: Keith R. Knox

Title: President and Principal Accounting Officer

Certification Pursuant to Rule 13a-14(a)

I, Martin C. Cunningham, hereby certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of Hudson Holding Corporation for the quarter ended September 30, 2008;
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 registrant as of, and for, the periods presented in this report;
4. The registrant'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 registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant'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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: November 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-Q of Hudson Holding Corporation for the quarter ended September 30, 2008;
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 registrant as of, and for, the periods presented in this report;
4. The registrant'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 registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant'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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: November 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-Q for the quarter ended September 30, 2008 (the "Form 10-Q") 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-Q fairly presents, in all materials respects, the financial condition and results of operations of the Company.

Date: November 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-Q for the quarter ended September 30, 2008 (the "Form 10-Q") 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-Q fairly presents, in all materials respects, the financial condition and results of operations of the Company.

Date: November 14, 2008

/s/ Keith R. Knox

Keith R. Knox,
President and Principal Accounting Officer

PRESS RELEASE

Contacts:

Martin C. Cunningham
Chairman & CEO
201-216-0100

Keith R. Knox
President
201-216-0100

FOR IMMEDIATE RELEASE

November 14, 2008

HUDSON HOLDING CORPORATION'S REVENUES INCREASE 100%

Jersey City, NJ, November 14, 2008: Hudson Holding Corporation (OTC Bulletin Board: HDHL.OB-News) announced that it filed its results for the fiscal quarter ended September 30, 2008 with the Securities and Exchange Commission today.

(unaudited)	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Trading gains, net	\$ 6,116,833	\$ 3,520,244	\$ 9,634,720	\$ 8,918,206
Commissions and fees	3,242,767	988,529	7,488,220	1,894,055
Interest and other	352,270	354,900	652,623	476,813
Total revenues	\$ 9,711,870	\$ 4,863,673	\$ 17,775,563	\$ 11,289,074
Net loss	\$ (123,826)	\$ (933,294)	\$ (966,481)	\$ (1,088,712)
Basic and diluted EPS	\$ (0.00)	\$ (0.03)	\$ (0.02)	\$ (0.03)
Recruitment and retention costs	\$ 833,734	\$ 78,791	\$ 1,844,436	\$ 124,133

Total revenues increased 100% for the three months ended September 30, 2008, to approximately \$9.7 million from \$4.9 million during the same period in the prior fiscal year. Net trading gains increased 74% for the three months ended September 30, 2008, to approximately \$6.1 million from \$3.5 million during the same period in the prior fiscal year, due to the addition of trading-focused sales traders. Commission revenues increased 228% for the three months ended September 30, 2008, to approximately \$3.2 million from \$1.0 million during the same period in the prior fiscal year, primarily due to a significant expansion of our institutional sales effort. The net loss decreased to approximately \$0.1 million for the three months ended September 30, 2008, from a \$0.9 million loss during the same period in the prior fiscal year. Recruitment and retention costs (including stock-based compensation) increased to approximately \$0.8 million for the three months ended September 30, 2008, from \$0.1 million during the same period in the prior fiscal year.

Total revenues increased 57% for the six months ended September 30, 2008, to approximately \$17.8 million from \$11.3 million during the same period in the prior fiscal year. Net trading gains increased 8% for the six months ended September 30, 2008, to approximately \$9.6 million from \$8.9 million during the same period in the prior fiscal year, due to the addition of trading-focused sales traders. Commission revenues increased 295% for the six months ended September 30, 2008, to approximately \$7.5 million from \$1.9 million during the same period in the prior fiscal year, primarily due to a significant expansion of our institutional sales effort. The net loss decreased to approximately \$1.0 million for the six months ended September 30, 2008, from a \$1.1 million loss during the same period in the prior fiscal year. Recruitment and retention costs (including stock-based compensation) increased to approximately \$1.8 million for the six months ended September 30, 2008, from \$0.1 million during the same period in the prior fiscal year.

	September 30,	March 31,
	2008	2008
	(unaudited)	
Hudson Holding Corporation		
Stockholders' equity	\$ 15,629,881	\$ 12,075,398
Total assets	\$ 20,779,527	\$ 17,323,538

Hudson Securities, Inc.				
Net capital	\$	<u>7,088,324</u>	\$	<u>4,870,737</u>
Excess net capital	\$	<u>6,088,324</u>	\$	<u>3,870,737</u>

On June 20, 2008, Hudson Holding Corporation closed on a private placement of \$4 million of securities, with net proceeds of approximately \$3.9 million after deducting offering costs.

“We’re pleased with the results during the typically slow summer quarter” said Marty Cunningham, Hudson’s Chairman and Chief Executive Officer. “While the ongoing global financial crisis has made for a difficult market environment” Mr. Cunningham continued, “We’re also seeing more opportunities to add seasoned producers and/or complementary business lines”.

Hudson Holding Corporation is a holding company and is the parent of Hudson Securities, Inc. and Hudson Technologies Inc.. Hudson Securities is a registered broker-dealer under the Securities Exchange Act of 1934, a member of the Financial Industry Regulatory Authority (“FINRA”) and meets the liquidity needs of brokers, dealers, institutions, and asset managers, including by making markets in over 9,000 Nasdaq, non-Nasdaq OTC, listed and foreign securities, with particular expertise in trading mid cap, small cap, and micro cap stocks. Hudson Technologies provides technology services to Hudson Securities and client companies.

Certain statements contained herein constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current expectations, estimates and projections about the Company’s industry, management’s beliefs and certain assumptions made by management. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Because such statements involve risks and uncertainties, the actual results and performance of the Company may differ materially from the results expressed or implied by such forward-looking statements. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. Unless otherwise required by law, the Company also disclaims any obligation to update its view of any such risks or uncertainties or to announce publicly the result of any revisions to the forward-looking statements made here; however, readers should review carefully reports or documents the Company files periodically with the Securities and Exchange Commission.

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

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Revenues:				
Trading gains, net	\$ 6,116,833	\$ 3,520,244	\$ 9,634,720	\$ 8,918,206
Commissions and fees	3,242,767	988,529	7,488,220	1,894,055
Interest and other income	352,270	354,900	652,623	476,813
	<u>9,711,870</u>	<u>4,863,673</u>	<u>17,775,563</u>	<u>11,289,074</u>
Expenses:				
Salaries and related costs (1)	2,009,988	1,044,794	4,171,547	2,162,700
Commissions, execution and clearing charges	5,330,999	2,940,786	9,792,576	6,230,772
Communications	1,410,571	1,321,562	2,781,936	2,553,774
Occupancy	319,482	470,618	596,739	837,080
Professional fees (2)	216,287	193,953	789,801	462,784
Business development	220,865	109,563	425,013	245,719
Other	399,931	312,715	740,072	521,872
	<u>9,908,123</u>	<u>6,393,991</u>	<u>19,297,684</u>	<u>13,014,701</u>
Loss before income tax benefit	(196,253)	(1,530,318)	(1,522,121)	(1,725,627)
Income tax benefit	(72,427)	(597,024)	(555,640)	(636,915)
Net loss	<u>\$ (123,826)</u>	<u>\$ (933,294)</u>	<u>\$ (966,481)</u>	<u>\$ (1,088,712)</u>
Loss per share – basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
Weighted average number of shares outstanding - basic and diluted	<u>45,125,185</u>	<u>36,725,185</u>	<u>41,507,698</u>	<u>36,725,185</u>

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007

(1) Includes the following amounts related to the recruitment and retention of employees:

Stock-based compensation	\$ 173,373	\$ 36,389	\$ 434,409	\$ 77,008
Recruitment incentives	658,069	28,305	1,241,444	28,305
	<u>\$ 831,442</u>	<u>\$ 64,694</u>	<u>\$ 1,675,853</u>	<u>\$ 105,313</u>

(2) Includes the following amounts related to the retention of directors and consultants:

Stock-based compensation	\$ 2,292	\$ 14,097	\$ 168,583	\$ 18,820
	<u>\$ 2,292</u>	<u>\$ 14,097</u>	<u>\$ 168,583</u>	<u>\$ 18,820</u>

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

	<u>September 30,</u> <u>2008</u>	<u>March 31,</u> <u>2008</u>
	<u>(unaudited)</u>	
ASSETS		
Cash and cash equivalents	\$ 616,049	\$ 6,172,348
Cash - restricted	249,241	245,505
Receivable from clearing broker	8,063,538	2,475,575
Securities owned, at fair value	4,779,240	2,423,257
Income taxes receivable	419,040	419,041
Furniture, equipment, capitalized software and leasehold improvements, net	1,120,490	959,733
Deferred tax assets	1,326,300	705,000
Other assets	445,783	409,289
Prepaid compensation	2,648,667	2,402,611
Goodwill	1,111,179	1,111,179
	<u>\$ 20,779,527</u>	<u>\$ 17,323,538</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Securities sold, but not yet purchased, at fair value	\$ 1,884,947	\$ 2,778,081
Commissions payable	1,563,809	1,070,511
Accrued expenses and other liabilities	1,700,890	1,399,548
Total liabilities	<u>5,149,646</u>	<u>5,248,140</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value; 1,000,000 shares authorized, none issued	-	-
Common stock, \$.001 par value; 200,000,000 shares authorized; 52,653,518 shares issued (includes 7,528,333 unvested restricted shares) and 45,125,185 shares outstanding at September 30, 2008, and 45,086,851 shares issued (includes 8,361,666 unvested restricted shares) and 36,725,185 shares outstanding at March 31, 2008	45,125	36,725
Additional paid-in capital	17,143,864	12,631,300
Accumulated deficit	(1,559,108)	(592,627)
Total stockholders' equity	<u>15,629,881</u>	<u>12,075,398</u>
	<u>\$ 20,779,527</u>	<u>\$ 17,323,538</u>