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

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**FORM 10-Q**

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(Mark One)

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

For the Quarterly Period Ended December 31, 2009

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-15936

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**HUDSON HOLDING CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

**111 Town Square Place Suite 1500A**  
**Jersey City, New Jersey**  
(Address of Principal Executive Offices)

**07310**  
(Zip Code)

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

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

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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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 February 16, 2010, there were 69,329,953 shares of the issuer's common stock outstanding.

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# HUDSON HOLDING CORPORATION

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**HUDSON HOLDING CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	<u>December 31,</u> 2009 (unaudited)	<u>March 31,</u> 2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,197,227	\$ 6,694,914
Cash - restricted	378,185	252,408
Receivable from clearing brokers	1,765,572	1,294,689
Securities owned, at fair value	3,326,327	2,246,488
Income taxes receivable	401,625	75,040
Furniture, equipment, capitalized software and leasehold improvements, net	895,161	1,182,028
Deferred tax assets	996,000	1,515,000
Prepaid expenses and other assets	1,122,381	866,027
Prepaid compensation, net	256,000	1,869,167
Goodwill	1,111,179	1,111,179
	<u>\$18,449,657</u>	<u>\$17,106,940</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Securities sold, but not yet purchased, at fair value	\$ 712,839	\$ 637,829
Commissions payable	1,103,487	1,259,987
Income taxes payable	—	60,827
Payable to clearing brokers	—	48,833
Accounts payable, accrued expenses and other liabilities	1,572,036	1,461,774
Total liabilities	<u>3,388,362</u>	<u>3,469,250</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; 68,723,703 and 47,794,537 shares issued and outstanding at December 31 and March 31, 2009, respectively	68,724	47,795
Additional paid-in capital	23,662,648	17,794,521
Accumulated deficit	<u>(8,670,077)</u>	<u>(4,204,626)</u>
Total stockholders' equity	<u>15,061,295</u>	<u>13,637,690</u>
	<u>\$18,449,657</u>	<u>\$17,106,940</u>

*See notes to these condensed consolidated financial statements.*

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Trading gains, net	\$ 5,926,885	\$ 8,755,272	\$16,587,944	\$18,389,992
Commissions and fees	3,934,397	3,332,552	14,067,925	10,820,772
Interest and other income	150,097	135,390	504,450	788,013
	<u>10,011,379</u>	<u>12,223,214</u>	<u>31,160,319</u>	<u>29,998,777</u>
<b>Expenses:</b>				
Salaries and related costs	2,569,036	1,981,585	7,756,178	6,153,132
Commissions, execution and clearing charges	5,436,110	7,659,977	18,420,564	17,452,554
Communications	1,593,964	1,424,191	4,893,552	4,206,126
Occupancy	488,066	283,501	1,347,078	880,239
Professional fees	198,978	342,272	939,655	1,132,073
Business development	185,944	177,308	532,396	602,321
Other	520,310	401,833	1,514,205	1,141,906
	<u>10,992,408</u>	<u>12,270,667</u>	<u>35,403,628</u>	<u>31,568,351</u>
<b>Loss before income tax provision (benefit)</b>	(981,029)	(47,453)	(4,243,309)	(1,569,574)
Income tax provision (benefit)	143,682	126,932	222,142	(428,708)
<b>Net loss</b>	<u>\$ (1,124,711)</u>	<u>\$ (174,385)</u>	<u>\$ (4,465,451)</u>	<u>\$ (1,140,866)</u>
Loss per share – basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.00)</u>	<u>\$ (0.09)</u>	<u>\$ (0.03)</u>
Weighted average number of shares outstanding – basic and diluted	<u>57,945,488</u>	<u>45,604,341</u>	<u>51,190,491</u>	<u>42,878,210</u>

*See notes to these condensed consolidated financial statements.*

**HUDSON HOLDING CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS 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, 2009	<b>47,794,537</b>	<b>\$47,795</b>	<b>\$17,794,521</b>	<b>\$(4,204,626)</b>	<b>\$13,637,690</b>
Issuance of common stock	19,350,000	19,350	4,799,418	—	4,818,768
Amortization of option grants - employees	—	—	388,091	—	388,091
Amortization of option grants - consultants	—	—	875	—	875
Amortization of restricted grants - employees	—	—	681,322	—	681,322
Issuance of restricted stock	1,579,166	1,579	(1,579)	—	—
Net loss	—	—	—	(4,465,451)	(4,465,451)
Balance - December 31, 2009 (unaudited)	<b><u>68,723,703</u></b>	<b><u>\$68,724</u></b>	<b><u>\$23,662,648</u></b>	<b><u>\$(8,670,077)</u></b>	<b><u>\$15,061,295</u></b>

*See notes to these condensed consolidated financial statements.*

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

	<b>Nine Months Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net loss	(4,465,451)	\$ (1,140,866)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	486,119	347,494
Stock-based compensation	1,070,288	851,226
Prepaid compensation amortization	1,323,667	1,800,444
Prepaid compensation reserve provision	289,500	—
Deferred rent	6,710	21,088
Deferred taxes	519,000	(554,800)
Changes in:		
Receivable from clearing brokers	(470,883)	1,300,221
Securities owned	(1,079,839)	(1,115,249)
Prepaid compensation	—	(1,750,000)
Income taxes receivable	(326,585)	(51,697)
Prepaid expenses and other assets	(256,355)	545
Securities sold, but not yet purchased	75,010	(1,865,468)
Payable to clearing brokers	(48,833)	—
Commissions payable	(156,500)	22,071
Income taxes payable	(60,827)	14,827
Accounts payable, accrued expenses and other liabilities	103,552	333,577
	<u>(2,991,427)</u>	<u>(1,786,582)</u>
<b>Cash flows from investing activities:</b>		
Purchase of furniture and equipment, capitalized software and leasehold improvements	(199,251)	(562,646)
Cash subject to restrictions	(125,777)	(5,329)
	<u>(325,028)</u>	<u>(567,975)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock and warrants, net of issuance costs	4,818,768	3,917,972
	<u>4,818,768</u>	<u>3,917,972</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,502,313</b>	<b>1,563,415</b>
Cash and cash equivalents - beginning of period	6,694,914	6,172,348
<b>Cash and cash equivalents - end of period</b>	<b><u>\$ 8,197,227</u></b>	<b><u>\$ 7,735,763</u></b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the year for:		
Income taxes	\$ 165,630	\$ 128,359
Non-cash operating activities:		
Prepaid compensation contractually forgiven	\$ 1,000,000	\$ 1,000,000

*See notes to these condensed consolidated financial statements.*

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

**NOTE A - ORGANIZATION, OPERATIONS AND BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") 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 condensed consolidated financial position of Hudson Holding Corporation ("Holding") as of December 31 and March 31, 2009 and the condensed consolidated results of its operations and cash flows for the three and nine months ended December 31, 2009 and 2008. The results of operations for the three and nine months ended December 31, 2009 are not necessarily indicative of the operating results for the full year. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and related disclosures for the year ended March 31, 2009 included in Holding's Annual Report on Form 10-K.

The condensed consolidated financial statements include the accounts of Holding and its wholly-owned subsidiaries, Hudson Securities, Inc. ("Hudson") and Hudson Technologies, Inc. ("Technologies") (collectively the "Company"). Holding was formed in 1987, is currently incorporated in the State of Delaware, and is a holding company. Hudson was formed in 1984, is a registered broker-dealer under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company's operations include institutional sales and market making of equity securities, plus investment banking. Hudson is an introducing broker and clears all transactions through clearing organizations on a fully disclosed basis. Accordingly, Hudson is exempt from rule 15c3-3 of the Securities Exchange Act of 1934.

Management has evaluated all subsequent events after the balance sheet date and through the financial statement issuance date of February 16, 2010 for appropriate accounting and disclosure (see note I).

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**[1] 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 income and expenses during the reporting period. Actual results could differ from those estimates. The Company's significant estimates include the deferred tax asset valuation allowance, the prepaid compensation reserve allowance, the Black-Scholes option pricing assumptions, the evaluation of goodwill for impairment, and the useful lives of long lived assets.

**[2] Securities transactions and revenue recognition:**

Hudson records transactions in securities and the related revenue and expenses on a trade-date basis. Sales and trading revenues are primarily derived from facilitating customer transactions. Commissions and fees include agency commissions and fees earned from customers 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 fair value with the resulting unrealized gains and losses reflected in sales and trading revenues. 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 estimates, the management determined values may differ from values that would have been used had a ready market for these securities existed.

## **NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

### **[3] Stock-based compensation:**

The Company measures 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. 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.

### **[4] 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 two clearing brokers to process transactions and maintain customer accounts. The clearing brokers may extend credit to Hudson's clientele which would be secured by cash and securities in the clients' accounts. Hudson's exposure to credit risk associated with the nonperformance 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 they may incur 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 condensed consolidated statement of financial condition. Hudson monitors its positions continuously to reduce the risk of the potential loss due to changes in market value or failure of counterparties to perform.

Substantially all of Hudson's cash and security positions may be deposited with its clearing brokers for safekeeping purposes. The clearing brokers are members of major security exchanges.

The Company also maintains cash in bank accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and it is not exposed to any significant credit risk on cash.

### **[5] 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 year. 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 unvested restricted stock, stock options or warrants were exercised or converted into common stock.

At December 31, 2009 and December 31, 2008, 6,283,753 and 6,184,170 shares of unvested restricted stock, outstanding stock options to purchase 9,276,666 and 4,520,000 shares of common stock and warrants to purchase 9,362,184 and 11,122,774 shares of common stock, respectively, were excluded from the calculation of diluted earnings per share because their impact would have been anti-dilutive.

## **NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

### **[6] Recently issued and adopted accounting standards:**

In June 2009, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance that established the FASB Accounting Standards Codification, (“Codification” or “ASC”) as the single source of authoritative GAAP to be applied by nongovernmental entities, except for the rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. This new guidance became effective for interim and annual periods ending after September 15, 2009. Other than the manner in which new accounting guidance is referenced, the adoption of these changes did not have a material impact on the Company’s condensed consolidated financial statements.

In March 2008, the FASB issued new accounting guidance, under ASC Topic 815 on Derivatives and Hedging, which amends and expands existing disclosure requirements to require qualitative disclosure about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements.

In June 2008, the FASB issued new accounting guidance, under ASC Topic 815 on Derivatives and Hedging, as to how an entity should determine whether an instrument, or an embedded feature, is indexed to an entity’s own stock and whether or not such instruments would be accounted for as equity or a derivative liability. The adoption of this guidance can affect the accounting for warrants and many convertible instruments with provisions that protect holders from a decline in the stock price (or “down-round” provisions). For example, warrants with such provisions will no longer be recorded in equity. Down-round provisions reduce the exercise price of a warrant or convertible instrument if a company either issues equity shares for a price that is lower than the exercise price of those instruments or issues new warrants or convertible instruments that have a lower exercise price. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008 and is applicable to outstanding instruments as of the beginning of the fiscal year it is initially applied. Early application is not permitted. The cumulative effect, if any, of the change in accounting principle shall be recognized as an adjustment to the opening balance of retained earnings. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements.

In May 2009, the FASB issued new accounting guidance, under ASC Topic 855 on Subsequent Events, which sets forth: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance was effective for interim and annual periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements.

In August 2009, the FASB issued new accounting guidance, under ASC Topic 820 on Fair Value Measurements and Disclosures, on the measurement of liabilities at fair value. The guidance provides clarification that in circumstances in which a quoted market price in an active market for an identical liability is not available, an entity is required to measure fair value using a valuation technique that uses the quoted price of an identical liability when traded as an asset or, if unavailable, quoted prices for similar liabilities or similar assets when traded as assets. If none of this information is available, an entity should use a valuation technique in accordance with existing fair valuation principles. The adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements.

## NOTE C - SECURITIES OWNED AND SECURITIES SOLD, BUT NOT YET PURCHASED

Securities owned and securities sold, but not yet purchased, at December 31, 2009 consist entirely of level 1 marketable securities.

### Fair Value Measurements

The Company records securities owned and securities sold, but not yet purchased, at fair value, which is deemed to be 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 December 31, 2009:

Securities owned, at fair value	Level 1	Level 2	Level 3	Total
Equities	\$3,326,327	\$ —	\$ —	\$3,326,327
Total	\$3,326,327	\$ —	\$ —	\$3,326,327
Securities sold, but not yet purchased, at fair value	Level 1	Level 2	Level 3	Total
Equities	\$ 712,839	\$ —	\$ —	\$ 712,839
Total	\$ 712,839	\$ —	\$ —	\$ 712,839

## NOTE D - STOCKHOLDERS' EQUITY

### [1] Private placement:

On November 12, 2009 the Company completed a private placement offering and sold an aggregate \$4,337,500 of its common stock at a purchase price of \$0.25 a share. The offering was subscribed by several existing shareholders and certain officers, directors and employees. In connection with the financing, Hudson issued 17,350,000 shares of common stock representing 26% of the outstanding stock of the Company.

On December 31, 2009 the Company completed a private placement offering and sold an aggregate of \$500,000 of its common stock at a purchase price of \$0.25 a share. The offering was subscribed by an institutional investor on the same terms as the private placement offering completed on November 12, 2009. In connection with the financing, Hudson issued 2,000,000 shares of common stock representing 3% of the outstanding stock of the Company.

### [2] Stock option grants:

On April 3, 2009, the Company granted options to an employee to purchase an aggregate of 800,000 shares of common stock at an exercise price of \$0.50, pursuant to the Company's 2007 Long-Term Incentive Compensation Plan ("2007 Plan"). Half of the options expire after approximately four and a half years and the other half expire after approximately five and a half years. The \$268,000 grant date fair value is being amortized over the respective vesting periods, which range from approximately four to five years.

## NOTE D - STOCKHOLDERS' EQUITY, continued

### [2] Stock option grants, continued:

On June 1, 2009, the Company granted options to new employees to purchase an aggregate of 1,100,000 shares of common stock at an exercise price of \$0.50, pursuant to the Company's 2007 Plan. 600,000 options expire after approximately three and a half years and 500,000 options expire after approximately four and a half years. The \$290,000 grant date fair value is being amortized over the respective vesting periods, which range from approximately three to four years.

On October 12, 2009, the Company granted options to its new Chief Executive Officer to purchase 2,500,000 shares of common stock at an exercise price of \$0.50, pursuant to the 2007 Plan. One-quarter of the options vested immediately and the remaining options will vest ratably on each of the next three anniversary dates. The options expire after approximately three and a half years. Accordingly, one-quarter of the \$550,000 grant date fair value will be amortized immediately and the remaining balance will be amortized over the three year vesting period. In the event of a change of control, as defined, all unvested options will vest immediately.

On December 8, 2009, the Company granted options to new employees to purchase an aggregate of 550,000 shares of common stock at an exercise price of \$0.50, pursuant to the Company's 2007 Plan. The options expire after approximately three and a half years. The \$82,500 grant date fair value is being amortized over the three year vesting period.

The Company recognized \$247,376 and \$386,768 during the three and nine months ended December 31, 2009 and \$79,356 and \$182,676 during the three and nine months ended December 31, 2008, respectively, of compensation expense related to employee stock option grants, which is reflected as salaries and related costs in the condensed consolidated statements of operations. As of December 31, 2009, there was \$1,084,018 of unrecognized employee stock-based compensation expense related to stock option grants that will be amortized over a weighted average period of 2.9 years.

The Company has computed the fair value of options granted using the Black-Scholes option pricing model. 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. The Company utilizes a "simplified" method to develop an estimate of the expected term of "plain vanilla" option grants. Given that the Company's shares have only been publicly traded since May 3, 2005, until such time as Holding had sufficient trading history to compute the historical volatility of its common stock, the Company utilized 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 December 31,		For the nine months ended December 31,	
	2009	2008	2009	2008
Risk free interest rate	1.21%	1.72%	1.42%	2.43%
Expected term (years)	2.55	3.25	2.97	3.25
Expected volatility	140%	65%	140%	65%
Expected dividends	—	—	—	—

The weighted average estimated grant date fair value of the stock options granted during the three and nine months ended December 31, 2009 was \$0.21 and \$0.24 per share and was \$0.10 and \$0.13 per share during the three and nine months ended December 31, 2008, respectively.

**NOTE D - STOCKHOLDERS' EQUITY, continued**

**[2] Stock option grants, continued:**

A summary of the status of the options issued under the Plans during the nine months ended December 31, 2009 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value
Balance, March 31, 2009	4,455,000	\$ 0.77		
Granted	4,950,000	0.50		
Exercised	—	—		
Forfeited	(128,334)	1.06		
Balance, December 31, 2009	<u>9,276,666</u>	<u>\$ 0.62</u>	<u>2.5</u>	<u>\$ —</u>
Exercisable, December 31, 2009	<u>3,398,323</u>	<u>\$ 0.80</u>	<u>1.5</u>	<u>\$ —</u>

The following table presents information related to stock options at December 31, 2009:

Options Outstanding		Options Exercisable	
Exercise Price	Number of Options	Weighted Average Remaining Life In Years	Exercisable Number of Options
\$ 0.35	100,000	1.2	66,666
0.40	75,000	2.5	75,000
0.49	296,666	1.2	203,332
0.50	6,100,000	3.1	808,332
0.60	100,000	1.8	33,333
0.75	290,000	1.9	96,663
0.80	250,000	0.8	166,666
0.90	325,000	0.6	219,998
1.00	1,710,000	1.0	1,698,333
1.15	30,000	1.6	30,000
	<u>9,276,666</u>	<u>1.5</u>	<u>3,398,323</u>

**[3] Stock grants:**

On April 3, 2009, the Company granted 500,000 shares of restricted stock to a certain employee, which was not issued pursuant to a stock plan, at a market value of \$0.40. Accordingly, the \$200,000 grant date fair value is being amortized over the four year vesting period.

On October 12, 2009, when the market value of the Company's restricted common stock was deemed to be \$0.25, the Company granted 2,500,000 shares of restricted stock to its new Chief Executive Officer, which was not issued pursuant to a plan. One-quarter of the award vested immediately and the remaining shares will vest ratably on each of the next three anniversary dates. Accordingly, one-quarter of the \$625,000 grant date fair value will be amortized immediately and the remaining balance will be amortized over the three year vesting period. In the event of a change of control, as defined, all unvested restricted stock will vest immediately.

The Company recognized \$360,180 and \$681,322 during the three and nine months ended December 31, 2009 and \$166,586 and \$497,676 during the three and nine months ended December 31, 2008, respectively, of compensation expense related to employee stock grants, which is reflected as a component of salaries and related costs in the consolidated statements of operations. As of December 31, 2009, there was \$1,770,126 of unrecognized employee stock-based compensation expense related to stock grants that will be amortized over a weighted average period of 2.3 years.

**NOTE D - STOCKHOLDERS' EQUITY, continued****[3] Stock grants:**

In addition, the Company recognized \$0 and \$0 during the three and nine months ended December 31, 2009 and \$0 and \$164,000 during the three and nine months ended December 31, 2008, respectively, of professional fees expense in the consolidated statements of operations, related to immediately vested director restricted stock grants.

A summary of restricted stock activity for the nine months ended December 31, 2009 is presented in the table below:

	Number of Shares	Weighted Average Grant Date Fair Value	Total Grant Date Fair Value
Non-vested, March 31, 2009	5,502,920	\$ 0.36	\$1,998,589
Granted	3,000,000	0.28	825,000
Vested	(1,579,166)	0.28	(446,750)
Forfeited	(640,001)	0.32	(203,700)
Non-vested, December 31, 2009	<u>6,283,753</u>	\$ 0.35	<u>\$2,173,139</u>

**NOTE E - COMMITMENTS AND CONTINGENCIES****[1] Leases:**

On April 29, 2009, Hudson entered into an agreement to lease 5,106 rentable square feet of office space in New York, New York. The lease commenced on May 28, 2009 and expires three years and two months from the commencement date. In accordance with the lease terms, the Company will pay rent at the rate of approximately \$255,000 per annum, beginning two months from the commencement date.

In connection with the New York City office lease, on April 29, 2009 Hudson deposited a one-year \$127,650 irrevocable standby letter of credit with the landlord as security, which automatically renews for additional one-year terms, unless thirty days written notice is provided. Pursuant to the lease agreement, Hudson is required to maintain the letter of credit until thirty days following the expiration of the lease. On April 16, 2009, Hudson deposited \$127,650 with the issuing financial institution in the form of an automatically renewable, twelve-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 condensed consolidated statements of financial condition as of December 31, 2009.

On December 2, 2009, Hudson entered into an agreement to lease 4,010 rentable square feet of office space in Norwalk, Connecticut. The lease commenced on December 2, 2009, 2009 and expires two years and three months from the commencement date. In accordance with the lease terms, the Company will pay rent at the rate of approximately \$74,000 per annum, beginning one and a half months from the commencement date. In connection with the lease, Hudson will pay a security deposit in the amount of \$10,693.33.

Rent expense, net of sublease income, was approximately \$488,000 and \$1,347,000 for the three and nine months ended December 31, 2009 and \$283,501 and \$880,239 for the three and nine months ended December 31, 2008, respectively.

## **NOTE E - COMMITMENTS AND CONTINGENCIES, continued**

### **[2] Employment agreements:**

On October 12, 2009, Anthony M. Sanfilippo entered into an employment agreement with the Company to become the Company's new Chief Executive Officer with a salary of \$275,000 per annum, a formula bonus, plus the restricted stock and stock option grants described in Notes D[2] and D[3]. The term of the employment agreement is three years. The agreement provides that, in the event of a termination without cause or a resignation for good reason, as defined in his employment agreement, Mr. Sanfilippo will receive a termination payment equal to all unpaid compensation for the balance of the term, a payment equal to the cost of COBRA premiums for medical insurance and any annual bonus quarterly payment due and not yet paid as of the date of such termination. The employment agreement provides for an annual bonus formula of 6% of the firm's net profits before taxes, with a \$6 million dollar cap. The annual bonus will be pro rated for the period from October 12, 2009 to the March 31, 2010 fiscal year end. A pro rated portion of the annual bonus will be paid quarterly, in the event quarterly and year to date consolidated pre-tax earnings are positive. All quarterly payments are subject to a holdback of 25%. Adjustment will be made to the annual bonus at year end to reflect any quarters subsequent to such quarterly payments where quarterly earnings are not positive calculated on a year to date basis.

On October 12, 2009, the Company entered into a second amendment to the employment agreement dated January 1, 2007 with Keith Knox, its President. The amendment provides for a definition of "Cause" identical to that in Mr. Sanfilippo's employment agreement and provides that, in the event of a Termination other than for Cause or a resignation for Good Reason, as defined in the employment agreement, Mr. Knox will receive a termination payment equal to all unpaid compensation for the balance of the term, a payment equal to the cost of COBRA premiums for medical insurance and any annual bonus quarterly payment due and not yet paid as of the date of such termination. The amendment also provides that Mr. Knox's annual bonus is subject to a \$6 million dollar cap.

### **[3] Termination agreement:**

On October 12, 2009, Martin C. Cunningham resigned as Chief Executive Officer and as Chairman of the Board and a director of the Company. Mr. Cunningham entered into a termination agreement with the Company which provides that Mr. Cunningham will receive the balance of the salary due to him under his employment agreement of \$475,000. The Company will also pay on behalf of Mr. Cunningham all applicable premiums towards COBRA continuation coverage until December 31, 2011, unless he is eligible for other comparable medical insurance before then. The termination agreement also provides that for a twelve month period, Mr. Cunningham will not solicit employees of the Company or certain designated customers of the Company. As of December 31, 2009, the Company has paid Mr. Cunningham \$245,833 related to his termination agreement. Mr. Cunningham will receive the balance in monthly payments, with the final payment to be made on October 1, 2010.

### **[4] Contingencies:**

At December 31, 2009, Hudson had \$1,894,000 (2 employees) of outstanding loans (\$256,000 net of accumulated amortization of \$1,348,500 and a reserve allowance of \$289,500), 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 amortized on a straight-line basis over the period specified in the employment agreements. Amortization expense charged to salaries and related costs in the condensed consolidated statement of operations was \$404,639 and \$1,722,471 for the three and nine months ended December 31, 2009 and \$596,226 and \$1,925,368 for the three and nine months ended December 31, 2008, respectively. A bad debt provision of \$0 and \$289,500 was recognized for the three and nine months ended December 31, 2009, respectively.

On September 29, 2008, the Company filed a Statement of Claim with a self-regulatory organization against a former employee for (a) repayment of a \$1,019,000 loan, plus interest; (b) reimbursement of \$336,341 of commission overpayments; plus (c) reimbursement of legal fees and other costs associated with arbitration proceeding. On November 19, 2008, the former employee's attorneys responded to FINRA. Arbitration hearings commenced on September 15, 2009. On February 5, 2010 the parties entered into a settlement agreement and mutual release whereby Hudson would be repaid \$220,000 of the loan amount, in exchange for forgiveness of the remainder of the loan. Hudson received payment of the settlement on February 9, 2010.

From time to time, Hudson is named as a defendant in various routine actions that are incidental to its activities as a broker-dealer, including civil actions, arbitrations, plus proceedings and investigation 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

## NOTE E - COMMITMENTS AND CONTINGENCIES, continued

that such matters will not have a material adverse effect on the results of operations or financial condition of the Company in any future period, depending in part on the results for such period, in the opinion of the Company's management, the ultimate resolution of such actions against the Company will have no material adverse effect on the Company's financial condition.

## NOTE F - NET CAPITAL REQUIREMENT

The Company is subject to various regulatory requirements, including the Securities and Exchange Commission'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 Securities and Exchange Commission 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). The Securities and Exchange Commission has the ability to prohibit or restrict such transactions if the result is detrimental to the financial integrity of the broker-dealer.

At December 31, 2009, the Company under the alternative standard method had net capital of approximately \$8,625,000, which was approximately \$7,625,000 in excess of its required net capital of \$1,000,000.

## NOTE G - 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 18% of total revenues, during the nine months ended December 31, 2009. The Company had one such active employee who accounted for 17% and 26% of total revenues, which included revenues from a single customer that accounted for 13% and 17% of total revenues, during the three and nine months ended December 31, 2008, respectively.

## NOTE H - INCOME TAXES

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

	December 31, 2009	March 31, 2009
Deferred taxes:		
Net operating loss carryforwards	\$ 2,464,000	\$1,585,000
Minimum tax carryforward credits	251,000	202,000
Reserve for commissions receivable and bad debts	28,000	42,000
Prepaid compensation amortization	653,000	437,000
Contributions carryforward deductions	32,000	27,000
Deferred rent	107,000	104,000
Stock-based compensation	494,000	278,000
Excess of tax over book basis of fixed assets	77,000	70,000
Total gross deferred tax assets	4,106,000	2,745,000
Excess of book over tax basis of capitalized software	(212,000)	(288,000)
Net deferred tax asset before valuation allowance	3,894,000	2,457,000
Valuation allowance	(2,898,000)	(942,000)
Net deferred tax asset	<u>\$ 996,000</u>	<u>\$1,515,000</u>

**NOTE H – INCOME TAXES, continued**

The Company files a federal income tax return on a consolidated basis with its wholly-owned subsidiaries, while the individual entities file state income tax returns in certain jurisdictions. The Company is subject to minimum taxes at the state and local level which are based on measures other than income. Federal and state income tax returns, beginning with those filed for the year ended March 31, 2006 and the ten months ended December 31, 2004, respectively, and through March 31, 2008, remain subject to exam. As of December 31, 2009, the Company had approximately \$5,786,000 of federal net operating losses (“NOLs”) which expire in 2028 and 2029. In addition, the Company has approximately \$8,317,000 of state NOL carryforwards, which expire between 2011 and 2029. A valuation allowance has been established to offset a portion of the deferred tax asset to the extent the Company has determined that it was more likely than not that the future tax benefits may not be fully realized. During the nine months ended December 31, 2009, the valuation allowance has increased by \$1,956,000. The Net operating losses are subject to internal revenue Code Section 382 and similar state income tax regulations, which could result in limitations on the amount of such losses that could be recognized during any taxable year.

**NOTE I – SUBSEQUENT EVENTS****[1] Restricted stock vesting:**

During January 2010, 606,250 shares of employees restricted stock vested.

**[2] Letter of Intent:**

On January 21, 2010, Holding announced that it has entered into a Letter of Intent to acquire the equity research and investment banking business of Next Generation, LLC, a Chicago based equity research boutique focused on the needs of institutional investors. The consummation of the transaction is subject to completion of due diligence, the negotiation of a definitive agreement, approval by Next Generation’s members, FINRA approval and customary closing conditions. There can be no assurance that the transaction will be completed.

## **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") condensed consolidated financial condition and results of operations should be read in conjunction with the condensed consolidated 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, 2009 and other filings with the Securities and Exchange Commission (the "SEC"). Any forward-looking statements regarding industry trends, product development and liquidity and future business activities should be considered in light of these factors. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

### **Business Environment**

We, like other securities firms, are directly affected by economic and political conditions, broad trends in business and finance, changes in volume and price levels of securities transactions, and changes in interest rates, all of which can affect our profitability. Severe market fluctuation or 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 December 31, 2009 compared to three months ended December 31, 2008**

We had overall revenues consisting of sales and trading revenues, commission and fee revenues, both primarily from activity on behalf of customers, plus net interest and other income of approximately \$10,011,379 for the three months ended December 31, 2009 as compared to \$12,223,214 for the three months ended December 31, 2008, a decrease of \$2,211,835 or 18%. The decrease was primarily due to a decrease in sales and trading revenues offset by an increase in commission and fee revenues. Sales and trading revenues were \$5,926,885 compared to \$8,755,272 during the same period in the prior year, a decrease of \$2,828,386 or 32%, primarily due to a decrease in sales activity of a significant customer. Commission and fee revenues were \$3,919,969 compared to \$3,332,552 during the same period last year, an increase of \$587,417 or 18%, principally due to increased volume. Interest and other income were \$164,525 compared to \$135,390 during the comparable period last year, an increase of \$29,135, or 21%, primarily due to an increase in fees from introducing brokers.

Our cost structure consists of both variable costs, such as commissions, execution and clearing charges, and fixed costs, such as salaries and related costs (including payroll taxes and benefits), communications (quote, trading, order management and telecommunication services), occupancy (rent, electricity, maintenance and real estate taxes) professional fees (attorneys and auditors), business development (travel, entertainment and advertising) and other operating costs. From a compensation perspective, approximately 45% of our employees are salaried, while most of our traders and salespersons receive revenue-based commission payments.

The commission payouts were \$4,408,822 (44% of revenues) in the three months ended December 31, 2009 compared to \$6,291,759 (51% of revenues) in the comparable prior year period, a decrease of \$1,882,938 or 30%, primarily due to the decrease in revenues. Execution and clearance charges were \$1,027,288 (10% of revenues) in the three months ended December 31, 2009 as compared to \$1,368,218 (11% of revenues) in the three months ended December 31, 2008, a decrease of \$340,930 or 25%, primarily due to an increase in algorithmic trading business which has higher execution fees, plus an increase in clearing costs. Communication costs were \$1,593,964 in the quarter ending December 31, 2009 compared to \$1,424,191 in the same quarter last year, an increase of \$169,773 or 12%, primarily due to additional equipment and services required for new hires. Occupancy costs were \$488,066 in the quarter ending December 31, 2009 compared to \$283,501 in the same quarter last year, an increase of \$204,565 or 72%, primarily due to the addition of new office locations.

Salaries and related costs were \$2,569,036 compared to \$1,981,585 in the comparable quarter in the prior year, an increase of \$586,971 or 30%, primarily due to an increase in salaries, as a result of new hires, a prepaid compensation reserve provision, an employee termination agreement, offset by a decrease in prepaid compensation amortization. Professional fees were \$198,978 compared to \$342,272 in the comparable quarter in the prior year, a decrease of \$143,293 or 42%, primarily due to a decrease in outside accounting services. Business development expenses were \$185,944 in the quarter ending December 31, 2009 compared to \$181,979 in the prior period quarter, an increase of \$8,636 or 5%. Other expenses were \$520,310 in the quarter ending December 31, 2009 compared to \$397,162 in the prior period quarter, an increase of \$118,476 or 30%, primarily due to increased software amortization and maintenance expense.

The pre-tax loss was \$981,028 for the three months ended December 31, 2009, compared to a pre-tax loss of \$47,453 for the three months ended December 31, 2008, an increase of \$933,575. The pre-tax loss increase was primarily due to a decrease in revenues, the increase in salaries, as a result of increased staff, a prepaid compensation reserve provision, an employee termination agreement, and the increase in execution costs. The income tax expense was \$143,682 for the three months ended December 31, 2009, compared to \$126,932 for the three months ended December 31, 2008, primarily due to an increase in the deferred tax asset valuation allowance offset by increased tax receivables as a result of filing claims for overpayment of taxes and the ability to carry back NOL's an additional two years pursuant to the Workers, Homeowner and Business Assistance Act of 2009.

### **Nine months ended December 31, 2009 compared to nine months ended December 31, 2008**

We had overall revenues consisting of sales and trading revenues, commission and fee revenues, both primarily from activity on behalf of customers, plus net interest and other income of \$31,160,319 for the nine months ended December 31, 2009 as compared to \$29,998,777 for the nine months ended December 31, 2008, an increase of \$1,161,542 or 4%, primarily due to an increase in commission and fee revenues offset by a decrease in sales and trading revenues, interest and other income. Sales and trading revenues were \$16,587,944 compared to \$18,389,992 during the same period in the prior year, a decrease of \$1,802,047 or 10%, due a decrease in trading activity. Commission and fee revenues were \$14,053,497 compared to \$10,820,772 during the same period last year, an increase of \$3,232,725 or 30%, principally due to increased volume. Interest and other income were \$518,877 compared to \$788,013 during the comparable period last year, a decrease of \$269,136, or 34%, primarily due to a decrease in fees from introducing brokers.

The commission payouts were \$14,473,495 (46% of revenues) in the nine months ended December 31, 2009 compared to \$14,753,010 (49% of revenues) in the comparable prior year period, a decrease of \$279,515 or 2%, primarily due to a decrease in sales and trading revenues. Execution and clearance charges were \$3,947,069 (15% of revenues) in the nine months ended December 31, 2009 as compared to \$2,699,543 (9% of revenues) in the nine months ended December 31, 2008, an increase of \$1,247,525 or 46%, primarily due to an increase in algorithmic trading business which has higher execution fees, plus an increase in clearing costs. Communication costs were \$4,893,552 in the nine months ending December 31, 2009 compared to \$4,206,126 in the same period last year, an increase of \$687,426 or 16%, primarily due to the cost of additional equipment and services required for new hires. Occupancy costs were \$1,347,078 in the nine months ending December 31, 2009 compared to \$880,239 in the same period last year, an increase of \$466,839 or 53%, primarily due to the addition of new office locations.

Salaries and related costs were \$7,756,178 compared to \$6,153,132 in the comparable period in the prior year, an increase of \$1,603,045 or 26%, primarily due to an increase in salaries, as a result of new hires, a prepaid compensation reserve provision, an employee termination agreement, offset by a decrease in prepaid compensation amortization. Professional fees were \$939,655 compared to \$1,132,073 in the comparable period in the prior year, a decrease of \$192,418 or 17%, primarily due to a decrease in outside legal and accounting services as a result of hiring a general counsel and chief financial officer for Hudson Securities, Inc. Business development expenses were \$532,396 in the nine months ending December 31, 2009 compared to \$602,321 in the prior period, a decrease of \$69,925 or 12%, primarily due to pulling back our marketing efforts. Other expenses were \$1,514,205 in the nine months ending December 31, 2009 compared to \$1,141,906 in the prior period, an increase of \$372,299 or 33%, primarily due to increased software amortization and maintenance expense.

The pre-tax loss was \$4,243,309 for the nine months ended December 31, 2009, compared to a pre-tax loss of \$1,569,574 for the nine months ended December 31, 2008, an increase of \$2,673,735 or 170%. The pre-tax loss increase was primarily due to increased salaries and related costs, plus communication and occupancy costs as a result of increased staff, a prepaid compensation reserve provision, an employee termination agreement and an increase in execution costs. The income tax expense was \$222,142 for the nine months ended December 31, 2009, compared to the income tax benefit of \$428,708 for the nine months ended December 31, 2008, primarily due to an increase in the deferred tax asset valuation allowance offset by increased tax receivables as a result of filing claims for overpayment of taxes and the ability to carry back NOL's an additional two years pursuant to the Workers, Homeowner and Business Assistance Act of 2009.

## Liquidity and Capital Resources

### Recent developments

On November 13, 2009 the Company completed a private placement offering of \$4,337,500 of its common stock at a purchase price of \$0.25 a share. In connection with the financing, Hudson issued 17,350,000 shares of common stock representing 26% of the outstanding stock.

On December 31, 2009 the Company completed a private placement offering of \$500,000 of its common stock at a purchase price of \$0.25 a share. In connection with the financing, Hudson issued 2,000,000 shares of common stock representing 3% of the outstanding stock.

Consolidated Balance Sheet Data:	As of December 31, 2009 (unaudited)	As of March 31, 2009
Working capital	\$ 11,624,216	\$ 7,914,837
Total assets	\$ 18,449,657	\$17,106,940
Total liabilities	\$ 3,388,362	\$ 3,469,250
Stockholders' equity	\$ 15,061,295	\$13,637,690

### Working Capital

Our working capital (current assets less current liabilities) increased to \$11.6 million at December 31, 2009 from \$7.9 million at March 31, 2009, primarily as a result of a capital infusion offset by operating losses, software expenditures and an increase in restricted cash. Current assets include cash, receivable from clearing brokers (cash on deposit with our clearing brokers), marketable securities, income taxes receivable and other assets (except for long-term security deposits). 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.

We currently do not have any outstanding bank borrowings or long-term debt.

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 (fixed income, options, etc.) including possible synergistic acquisition opportunities. Such expansion could require the issuance of additional restricted stock, stock options or other stock-based awards in order to recruit and retain experienced professionals (see Notes D and E[4] to the condensed consolidated financial statements for additional details). See Note F to the condensed consolidated 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 and termination agreements.

Our cash position increased by \$1,502,313 to \$8,197,227 during the nine months ended December 31, 2009, after increasing by \$1,563,415 to \$7,735,763 during the nine months ended December 31, 2008. 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. On December 31, 2009 and 2008, we had \$2,613,488 and \$2,625,893 in net securities positions and \$8,493,546 and \$8,532,750 on deposit with our clearing brokers, respectively.

### Operating Activities

Net cash used in operating activities was \$2,991,427 during the nine months ended December 31, 2009, primarily as a result of a \$1,004,829 increase in net securities positions. Net cash used in operating activities was \$1,786,582 during the nine months ended December 31, 2008, primarily as a result of reallocating an incremental \$1,300,226 of cash from our clearing broker, a \$2,980,717 increase in net securities positions and a \$1,750,000 increase in forgivable loans given to new salespersons as a recruiting incentive.

### *Investing Activities*

Net cash used in investing activities was \$325,028 during the nine months ended December 31, 2009 and \$567,975 during the nine months ended December 31, 2008, primarily due to the ongoing development of capitalized software, plus, for the current period, the depositing of funds with a financial institution in order to collateralize a letter of credit.

### *Financing Activities*

Net cash provided by financing activities was \$4,818,768 and \$3,917,972 during the nine months ended December 31, 2009 and 2008, due to the receipt of net private placement proceeds.

### **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 Jersey City, New Jersey 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.

On April 29, 2009, a financial institution issued a one-year, automatically renewable, irrevocable \$127,650 standby letter of credit, on our behalf, to the landlord associated with our new New York City office lease as a security deposit. The Company is obligated to maintain the letter of credit until thirty days after the July 28, 2012 expiration of the lease. The Company deposited \$127,650 with the financial institution in the form of an automatically renewable twelve month time deposit, in order to collateralize the letter of credit.

As of December 31, 2009, 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, 2009. Please refer to that document for disclosures regarding the critical accounting policies related to our business.

### **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 Principal Accounting Officer, 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 condensed consolidated 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 Principal Accounting Officer 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.

**Limitations of the Effectiveness of Internal Control**

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of the inherent limitations of any internal control system, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

**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.

From time to time, Hudson is named as a defendant in various routine actions that are incidental to its activities as a broker-dealer, including civil actions, arbitrations, plus proceedings and investigation by self-regulatory organizations. On September 29, 2008, the Company filed a Statement of Claim with a self-regulatory organization against a former employee for (a) repayment of a \$1,019,000 loan, plus interest; (b) reimbursement of \$336,341 of commission overpayments; plus (c) reimbursement of legal fees and other costs associated with arbitration proceeding. On November 19, 2008, the former employee's attorneys responded to FINRA. Arbitration hearings commenced on September 15, 2009. On February 5, 2010 the parties entered into a settlement agreement and mutual release, whereby Hudson would be repaid \$220,000 of the loan amount, in exchange for forgiveness of the remainder of the loan. Hudson received payment of the settlement on February 9, 2010. See Note E[4] to the condensed consolidated financial statements for additional details.

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

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. On November 19, 2008, the Company's Board authorized the repurchase of up to \$1,000,000 of the Company's common stock, at the discretion of the Company's management, in lieu of the repurchase of up to 1,000,000 shares of the Company's common stock. During the quarter ended December 31, 2009, the Company did not repurchase any of its equity securities.

On November 12, 2009, the Company completed a private placement of 17,350,000 shares of its common stock at a purchase price of \$0.25 per share, with net proceeds to Hudson of \$4,337,500. The offering was subscribed by several existing shareholders and certain officers, directors and employees. The Company also entered into a registration rights agreement with the investors that provides for two "demand" registrations at the Company's expense.

On December 31, 2009 the Company closed on a private placement of 2,000,000 shares of its common stock at a purchase price of \$0.25 per share, with net proceeds to Hudson of \$500,000. The offering was subscribed by an institutional investor pursuant to a securities purchase agreement on the same terms as the private placement offering completed in the Company's November 12, 2009 offering. The investor and the Company also entered into a joinder agreement to the registration rights agreement dated as of October 14, 2009 which provides for two "demand" registrations at the Company's expense. As a result of the financing, Hudson's stockholders' equity now exceeds \$14.8million. The Company intends to use the proceeds for working capital purposes, to further strengthen its capital position and to facilitate additional recruitment at its broker dealer subsidiary, Hudson Securities. The Company did not pay any commissions or fees in connection with the offerings, other than legal fees, which are immaterial.

These securities were offered and sold in reliance upon exemptions from the registration requirements of section 5 of the Securities Act of 1933, as amended (the "Act"), pursuant to Section 4(2) of the Act and Rule 506 promulgated there under. Such securities were sold exclusively to one accredited investor as defined by Rule 501(a) under the Act.

### 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 December 17, 2009.

Proposal 1. To elect seven Directors to the Board of Directors to serve until the 2010 Annual Meeting of Stockholders or until their successors have been duly elected or appointed and qualified:

<u>Director</u>	<u>For</u>	<u>Withheld</u>
Anthony M. Sanfilippo	52,699,241	94,035
Keith R. Knox	52,174,190	619,086
John W. Mascone	52,480,492	312,784
Peter J. Zugschwert	52,383,413	409,863
Joanne V. Landau	52,480,492	312,784
Kenneth D. Pasternak	52,699,241	94,035
John C. Shaw, Jr.	52,699,278	93,998

**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 Nine Months Ended December 31, 2009

\* 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: February 16, 2010

By: /s/ Anthony M. Sanfilippo  
Name: Anthony M. Sanfilippo  
Title: Chief Executive Officer

Dated: February 16, 2010

By: /s/ Keith R. Knox  
Name: Keith R. Knox  
Title: President and Principal Accounting Officer

**Certification Pursuant to Rule 13a-14(a)**

I, Anthony M. Sanfilippo, hereby certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of Hudson Holding Corporation for the quarter ended December 31, 2009
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: February 16, 2010

/s/ Anthony M. Sanfilippo

Anthony M. Sanfilippo,  
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 December 31, 2009;
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: February 16, 2010

/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 December 31, 2009 (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: February 16, 2010

/s/ Anthony M. Sanfilippo

Anthony M. Sanfilippo,  
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 December 31, 2009 (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: February 16, 2010

/s/ Keith R. Knox

Keith R. Knox,  
President and Principal Accounting Officer

## PRESS RELEASE

## Contacts:

Anthony M. Sanfilippo  
CEO  
201-216-0100

Keith R. Knox  
President  
201-216-0100

Andrew E. Lewin  
Investor Relations  
alewin@hudsonsecurities.com

**Andrew Lewin**  
**Investor Relations**  
alewin@hudsonsecurities.com

FOR IMMEDIATE RELEASE

February 16, 2010

**HUDSON HOLDING CORPORATION ANNOUNCES 4% NINE MONTHS REVENUES INCREASE OVER PRIOR YEAR**

**Jersey City, NJ, February 16, 2010: Hudson Holding Corporation** (OTC Bulletin Board: HDHL.OB-News) announced that it filed its results for the fiscal quarter ended December 31, 2009 with the Securities and Exchange Commission today.

“We made significant progress this quarter in our firm wide review of our business lines. We closed on \$4.8 million in financing, further strengthening our cash position while currently having no debt on our balance sheet. The loss for the quarter on a GAAP basis was primarily the result of certain non cash charges” said Tony Sanfilippo, Chief Executive Officer. “We are committed to reinvesting in our business by actively recruiting quality people and expanding our product offering in our effort to broaden our institutional business. The recent addition of a fundamental research product to complement our strong trading platform is an important step in repositioning Hudson as a full service firm. We believe our value proposition will be enhanced by these new initiatives.”

(unaudited)	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
Sales and trading	\$ 5,926,885	\$ 8,755,271	\$16,587,944	\$18,389,992
Commissions and fees	3,934,397	3,332,552	14,067,925	10,820,772
Net interest and other income	150,097	135,390	504,450	788,013
Total revenues	<u>\$10,011,379</u>	<u>\$12,223,213</u>	<u>\$31,160,319</u>	<u>\$29,998,777</u>
Net loss	<u>\$ (1,124,711)</u>	<u>\$ (174,385)</u>	<u>\$ (4,465,451)</u>	<u>\$ (1,140,866)</u>
Basic and diluted EPS	<u>\$ (0.02)</u>	<u>\$ (0.00)</u>	<u>\$ (0.09)</u>	<u>\$ (0.03)</u>

Total revenues for the three months ended December 31, 2009 was approximately \$10 million as compared to \$12.2 million during the same period in the prior fiscal year, a decrease of 18%. Net trading gains for the three months ended December 31, 2009 was approximately \$5.9 million as compared to \$8.7 million during the same period in the prior fiscal year, representing a decrease of 32%. Commission revenues increased 18% for the three months ended December 31, 2009, to approximately \$3.9 million from \$3.3 million during the same period in the prior fiscal year, primarily due to an expansion of our institutional sales effort. The net loss increased to approximately \$1.1 million for the three months ended December 31, 2009, from a \$0.2 million loss during the same period in the prior fiscal year.

Total revenues increased 4% for the nine months ended December 31, 2009, to approximately \$31.2 million from \$30 million for the same period in the prior fiscal year. Net trading gains decreased 10% for the nine months ended December 31, 2009, to approximately \$16.6 million from \$18.4 million during the same period in the prior fiscal year. Commission revenues increased 30% for the nine months ended December 31, 2009, to approximately \$14.1 million from \$10.8 million during the same period in the prior fiscal year, primarily due to a significant expansion of our institutional sales effort. The net loss increased to approximately \$4.5 million for the nine months ended December 31, 2009, from a \$1.1 million loss during the same period in the prior fiscal year.

	December 31, 2009 (unaudited)	March 31, 2009
<u>Hudson Holding Corporation</u>		
Stockholders' equity	<u>\$15,061,295</u>	<u>\$13,637,689</u>
Total assets	<u>\$18,449,657</u>	<u>\$17,106,939</u>
<u>Hudson Securities, Inc.</u>		
Net capital	<u>\$ 8,625,190</u>	<u>\$ 6,109,287</u>
Excess net capital	<u>\$ 7,625,190</u>	<u>\$ 5,109,287</u>

Hudson Holding Corporation is a publicly traded company on the OTC Bulletin Board under the symbol "HDHL" and is the parent of Hudson Securities, Inc. and Hudson Technologies, Inc. Hudson Securities, Inc. is dedicated to meeting the liquidity needs of its clients—institutions, hedge funds, asset managers, and broker dealers—by providing execution solutions and making markets in over 15,000 U.S. and foreign securities and ADRs. As a registered broker-dealer under the Securities Exchange Act of 1934, Hudson Securities is a member of the Financial Industry Regulatory Authority ("FINRA") and has been in business since 1984. 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 December 31,		Nine Months Ended December 31,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Trading gains, net	\$ 5,926,885	\$ 8,755,272	\$16,587,944	\$18,389,992
Commissions and fees	3,934,397	3,332,552	14,067,925	10,820,772
Interest and other income	150,097	135,390	504,450	788,013
	<u>10,011,379</u>	<u>12,223,214</u>	<u>31,160,319</u>	<u>29,998,777</u>
<b>Expenses:</b>				
Salaries and related costs	2,569,036	1,981,585	7,756,178	6,153,132
Commissions, execution and clearing charges	5,436,110	7,659,977	18,420,564	17,452,554
Communications	1,593,964	1,424,191	4,893,552	4,206,126
Occupancy	488,066	283,501	1,347,078	880,239
Professional fees	198,978	342,272	939,655	1,132,073
Business development	185,944	177,308	532,396	602,321
Other	520,310	401,833	1,514,205	1,141,906
	<u>10,992,408</u>	<u>12,270,667</u>	<u>35,403,628</u>	<u>31,568,351</u>
<b>Loss before income tax benefit</b>	(981,029)	(47,453)	(4,243,309)	(1,569,574)
Income tax benefit	143,682	126,932	222,142	(428,708)
<b>Net loss</b>	<u>\$ (1,124,711)</u>	<u>\$ (174,385)</u>	<u>\$ (4,465,451)</u>	<u>\$ (1,140,866)</u>
Loss per share – basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.00)</u>	<u>\$ (0.09)</u>	<u>\$ (0.03)</u>
Weighted average number of shares outstanding - basic and diluted	<u>57,945,488</u>	<u>45,604,341</u>	<u>51,190,491</u>	<u>42,878,210</u>

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

	<u>December 31,</u> <u>2009</u>	<u>March 31,</u> <u>2009</u>
	<u>(unaudited)</u>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,197,227	\$ 6,694,914
Cash - restricted	378,185	252,408
Receivable from clearing broker	1,765,572	1,294,689
Securities owned, at fair value	3,326,327	2,246,488
Income taxes receivable	401,625	75,040
Furniture, equipment, capitalized software and leasehold improvements, net	895,161	1,182,028
Deferred tax assets	996,000	1,515,000
Other assets	1,122,381	866,027
Prepaid compensation	256,000	1,869,167
Goodwill	1,111,179	1,111,179
	<u>\$18,449,657</u>	<u>\$17,106,940</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Securities sold, but not yet purchased, at fair value	\$ 712,839	\$ 637,829
Commissions payable	1,103,487	1,259,987
Income taxes payable	—	60,827
Payable to clearing brokers	—	48,833
Accrued expenses and other liabilities	<u>1,572,036</u>	<u>1,461,774</u>
Total liabilities	<u>3,388,362</u>	<u>3,469,250</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; 68,723,703 and 47,794,537 shares issued and outstanding at December 31, and March 31, 2009 respectively	68,724	47,795
Additional paid-in capital	23,662,648	17,794,521
Accumulated deficit	<u>(8,670,077)</u>	<u>(4,204,626)</u>
Total stockholders' equity	<u>15,061,295</u>	<u>13,637,690</u>
	<u>\$18,449,657</u>	<u>\$17,106,940</u>