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# ANNUAL AUDITED REPORT FORM X-17A-5 PART III

SEC FILE NUMBER
8- 67252

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/2008 AND ENDING 12/31/2008  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

**MADISON PROPRIETARY TRADING GROUP, LLC**

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

**250 Park Avenue South, 10th Floor**

(No. and Street)

**New York**  
(City)

**NY**  
(State)

**10003**  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

**Mitchell Kosches**

**(212) 404-1790**  
(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**Kempisty & Company, Certified Public Accountants, P.C.**

(Name - if individual, state last, first, middle name)

**15 Maiden Lane, Suite 1003**  
(Address)

**New York**  
(City)

**New York**  
(State)

**10038**  
(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2).

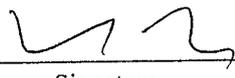
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BB 5/28

OATH OR AFFIRMATION

I, Mitchell Kosches, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MADISON PROPRIETARY TRADING GROUP, LLC, as of December 31, 20 08, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_



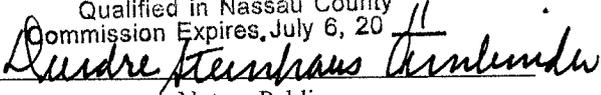
Signature

Managing Member

Title

DIERDRE STEINHAUS AINBINDER  
Notary Public, State of New York  
No. 01A14899711

Qualified in Nassau County  
Commission Expires, July 6, 2011



Notary Public

This report\*\* contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**MADISON PROPRIETARY TRADING GROUP LLC**

Statement of Financial Condition

December 31, 2008

(With Independent Auditors' Report Thereon)

**MADISON PROPRIETARY TRADING GROUP LLC**

**DECEMBER 31, 2008**

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# *KEMPISTY & COMPANY*

*CERTIFIED PUBLIC ACCOUNTANTS, P.C.*

*15 MAIDEN LANE - SUITE 1003 - NEW YORK, NY 10038 - TEL (212) 406-7272 - FAX (212) 513-1930*

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## INDEPENDENT AUDITORS' REPORT

To the Members of  
Madison Proprietary Trading Group LLC

We have audited the accompanying statement of financial condition of Madison Proprietary Trading Group LLC as of December 31, 2008. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Madison Proprietary Trading Group LLC as of December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

*Kempisty & Company CPAs PC*

Kempisty & Company  
Certified Public Accountants PC  
New York, New York  
March 31, 2009

**MADISON PROPRIETARY TRADING GROUP LLC**

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2008**

**ASSETS**

Cash	\$	316,416
Securities owned, at market (Note 3)		7,131,181
Commission receivable		23,262
JBO investment		10,054
Dividend and interest receivable		<u>1,099</u>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b><u><u>7,482,012</u></u></b>

**LIABILITIES AND MEMBERS' EQUITY**

**LIABILITIES**

Payable to clearing broker	\$	1,005,753
Securities sold, not yet purchased, at market		4,542,818
Accounts payable		99,303
Accrued expenses		77,200
Accrued interest expense		<u>193</u>
<b>TOTAL LIABILITIES</b>		<b>5,725,267</b>
Commitments and contingent liabilities (Note 5)		-
Members' Equity		<u>1,756,745</u>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$</b>	<b><u><u>7,482,012</u></u></b>

**The accompanying notes are an integral part of these financial statements.**

# MADISON PROPRIETARY TRADING GROUP LLC

## NOTES TO FINANCIAL STATEMENTS

December 31, 2008

### NOTE 1- ORGANIZATION AND NATURE OF BUSINESS

Madison Proprietary Trading Group LLC (the "Company") is a New York limited liability company formed on January 24, 2006. The Company is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of the NASDAQ OMX PHLX (formerly the Philadelphia Stock Exchange).

The Company is engaged in the activity of trading securities in the United States and Russia.

### NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Depreciation

The cost of equipment is depreciated over the estimated useful lives of the related assets of 5 years on a straight line basis for book and on an accelerated basis for tax purposes.

#### Concentration of Credit Risk

The Company is engaged in various investment and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Revenue Recognition

Securities transactions and related income and expenses are recorded on the books on a trade date basis.

#### Income Taxes

The Company is treated as a partnership for federal and state income tax purposes and, therefore, does not record a provision for income taxes. Accordingly, the individual members report their share of the Company's income or loss on their personal income tax returns.

MADISON PROPRIETARY TRADING GROUP LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

The Company does not expect the adoption of recent accounting pronouncements to have any material impact on its financial condition or results of operations.

Comprehensive Income

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income ("SFAS No. 130"). SFAS No. 130 requires an entity to report comprehensive income and its components and increases financial reporting disclosures. This standard has no impact on the Company's financial position, cash flows or results of operations since no elements of the Company's comprehensive income exist other than the loss from operations.

Fair Value Measurements

The Company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), effective January 1, 2008. The provisions of SFAS 157 are to be applied prospectively.

SFAS 157 clarifies that fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date). Under SFAS 157, fair value measurements are not adjusted for transaction cost. SFAS 157 provides for use of a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company.
- Level 3: Unobservable inputs. Unobservable inputs reflect the assumptions that the Company develops based on available information about what market participants would use in valuing the asset or liability.

An asset or liability's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Availability of observable inputs can vary and is affected by a variety of factors. The Company uses judgment in determining fair value of assets and liabilities and Level 3 assets and liabilities involve greater judgment than Level 1 and Level 2 assets or liabilities.

MADISON PROPRIETARY TRADING GROUP LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

NOTE 3- FAIR VALUE OF INVESTMENTS

The following are the Company's investments owned and securities sold short by level within the fair value hierarchy at December 31, 2008.

<u>Assets</u>	<u>Fair Value</u>	<u>Fair Value Hierarchy</u>
Marketable securities	\$ <u>7,131,181</u>	Level 1
<u>Liabilities</u>		
Marketable securities sold short	\$ <u>4,542,818</u>	Level 1

NOTE 4- RECEIVABLE FROM BROKER-DEALERS AND CLEARING ORGANIZATIONS

Amounts receivable from and payable to the Company's clearing organization, and others at December 31, 2008, consist of the following:

	<u>Payable</u>
Payable to clearing broker	\$ <u>1,005,753</u>

NOTE 5- RELATED PARTIES

On September 1, 2006, the Company entered into an administrative services agreement (the "agreement") with an affiliate. The agreement states that the Company will be provided with office space, equipment and administrative services, in return for a monthly fee. Total fees incurred for the year ended December 31, 2008 was \$344,697.

NOTE 6- COMMITMENTS AND CONTINGENCIES

The Company is provided office space by an affiliate as part of the affiliate's sublease. During 2008, the Company paid rent expense of \$454,775.

NOTE 7- NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 8 to 1 during the first year of operation, and 15 to 1 thereafter, and equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2008, the Company had net capital of \$138,499, which was \$38,499 in excess of its' required net capital of \$100,000. The Company's net capital ratio was 1.2758 to 1.

**MADISON PROPRIETARY TRADING GROUP LLC**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2008**

**NOTE 8- OFF BALANCE SHEET RISK**

Pursuant to a clearance agreement, the Company clears all of its securities transactions through its clearing broker. Under certain conditions as defined in the clearance agreement, the Company has agreed to indemnify the clearing broker for losses, if any, which the clearing broker may sustain from carrying securities transactions initiated by the Company. In accordance with industry practice and regulatory requirements, the Company and the clearing broker monitor collateral on the securities transactions initiated by the Company.

**NOTE 9- GUARANTEES**

FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, requires the Company to disclose information about its obligations under certain guarantee arrangements. FIN 45 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. FIN 45 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

Indemnifications

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The maximum potential amount of future payments that the Company could be required to make under the indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the consolidated financial statements for these indemnifications.