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SECURITIES AND EXCHANGE  
Washington, D.C. 20549



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

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8-45457

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 01/01/08 AND ENDING 12/31/08  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER - DEALER:

Cornerstone Trading, LLC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
440 S. La Salle Street Ste 1900

OFFICIAL USE ONLY
FIRM ID. NO.

(No. and Street)  
Chicago Illinois 60605  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Steven Glazer 312-431-7303  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Robert Cooper & Company CPAs, P.C.  
(Name - if individual, state last, first, middle name)

141 West Jackson Blvd. Suite 2045 Chicago, IL 60604  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

SEC Mail Processing  
Section

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\* 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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***Cornerstone Trading, LLC***  
***(An Illinois***  
***Limited Liability Company)***

Financial Statements  
Year Ended December 31, 2008, and  
Independent Auditors' Report

(Filed Pursuant to Rule 17A-5 Under the Securities Exchange Act of 1934)

**CORNERSTONE TRADING, LLC**  
*Annual Report*  
*For the Year Ended December 31, 2008*

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANT

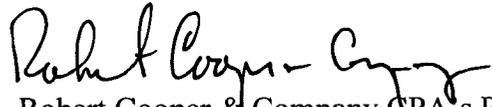
**To the Members:  
Cornerstone Trading, LLC**

We have audited the accompanying statement of financial condition of **Cornerstone Trading, LLC** as of December 31, 2008 , and the related statements of income, changes in Members capital, and cash flows for the period ending December 31, 2008. These financial statements are the responsibility of the Members. Our responsibility is to express an opinion on these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Cornerstone Trading, LLC** as of December 31, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Robert Cooper & Company CPA's PC  
February 25, 2009

**Cornerstone Trading, LLC**  
**(An Illinois limited liability company)**  
**Statement of Financial Condition**  
**December 31, 2008**

**Assets**

Cash	\$	5,548,075
Due from broker dealer		
Securities owned:		
Marketable securities, at market value		9,497,950
Options, at market value		6,458,614
Bonds at fair value		412,766
<b>Total securities owned</b>		<b>16,369,330</b>
Accrued dividend receivable		12,307
Preferred Stock		50,000
 Total Assets	 \$	 <u><u>21,979,712</u></u>

**Liabilities and Member's Equity**

<b>Liabilities</b>		
Due from broker dealer	\$	4,773,291
Securities sold short:		
Marketable securities sold short, at market value		4,981,014
Options sold short, at fair value		3,457,365
Accrued expenses		60,000
Open trade equity futures account		3,603
Dividend payable		14,626
<b>Total liabilities</b>		<u>13,289,899</u>
 Member's equity		 8,689,814
 Total member's equity and Liabilities	 \$	 <u><u>21,979,712</u></u>

(0)

The accompanying notes to financial statements  
are an integral part of this statement

**Cornerstone Trading, LLC**  
**(An Illinois limited liability company)**  
**Statement of Operations**  
For the year ended December 31, 2008

<b>Revenues:</b>	
Trading revenue net of commissions	\$ 4,695,624
Trading revenue futures net of commissions	332,701
Interest income	552,038
Dividend income	541,101
Other income	153,948
<b>Total Revenue</b>	<u>6,275,412</u>
<b>Expenses:</b>	
Interest Expense	397,359
Regulatory and other expenses	320,123
Brokerage costs	350,244
Dividends paid	341,033
Payroll	528,721
Technology & information expenses	554,853
Other operating expenses	987,568
<b>Total expenses</b>	<u>3,479,901</u>
<b>Net Income</b>	<u>\$ 2,795,511</u>

The accompanying notes to financial statements  
are an integral part of this statement

**Cornerstone Trading, LLC**  
**(An Illinois limited liability company)**  
Statement of Changes in Member's Equity  
For the year ended December 31, 2008

<b>Members Capital December 31, 2007</b>	\$ 11,085,656
Capital contributions	
Capital withdrawals	(5,191,353)
Net income	2,795,511
<b>Members Capital December 31, 2008</b>	<u><u>\$ 8,689,814</u></u>

The accompanying notes to financial statements  
are an integral part of this statement

**Cornerstone Trading, LLC**  
**(An Illinois limited liability company)**  
**Statement of Cash Flows**  
**For the year ended December 31, 2008**

<b>Cash Flows From Operating Activities:</b>	
Net Income	\$ 2,795,511
Items not effecting cash flow to reconcile cash depreciation	0
Changes in assets and liabilities:	
Increase in securities owned	15,941,452
Increase in receivable from brokers and dealers	9,450,738
Decrease in accrued receivables	265,725
increase in dividend receivable	29,644
Increase in securities sold	(17,488,705)
Increase in futures ote	9,184
Decrease in Dividend payable	(90,469)
Increase in accounts payable and accrued liabilities	(253,318)
<b>Net Cash used in operating activities</b>	<u>10,659,762</u>
<b>Cash Flows From Investing Activities:</b>	
Purchase of fixed assets	0
Purchase of preferred jbo stock	0
<b>Net Cash used in investing activities</b>	<u>0</u>
<b>Cash Flows From Financing Activities</b>	
Proceeds from capital contributions	0
Payments for capital withdrawals	(5,191,353)
<b>Net cash provided by financing activities</b>	<u>(5,191,353)</u>
<b>Net change in cash and cash equivalents</b>	5,468,408
<b>Cash at December 31, 2007</b>	79,667
<b>Cash at December 31, 2008</b>	<u>\$ 5,548,075</u>
Interest expense paid in 2008	397,359

The accompanying notes to financial statements  
are an integral part of this statement

**Cornerstone Trading, LLC**  
Notes to Financial Statements  
For the Year Ended December 31, 2008

**NOTE 1      Organization**

**Cornerstone Trading, LLC** (The “Company”) was organized under the Uniformed General LLC Act of Illinois January 1, 2006. Prior to January 1, 2006, the Company was organized as a partnership. The business of the Company is to engage in the speculative trading of stock and stock options, for their own account on organized exchanges in the United States. **Cornerstone Trading, LLC** is registered as a Broker Dealer with the Securities and Exchange Commission (SEC) and a member of the Chicago Board Options Exchange (CBOE). The Company is exempt from certain filing requirements under the Rule 15c3-1(a)(6) of the Securities and Exchange Commission, since the Company does not trade on behalf of customers, effects transactions only with other broker dealers, does not effect transactions in unlisted options and clears and carries its trading accounts with a registered clearing partner of the Exchange.

**NOTE 2      Significant Accounting Policies**

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

In the normal course of business, the Company enters into transactions in exchange traded securities, including options thereon which are used primarily to hedge certain proprietary securities and commitments. Proprietary securities transactions together with related revenues and expenses are recorded on trade date. Securities and options owned are reflected at market value with the resulting unrealized gains and losses reflected currently in income.

*Income Taxes.*

A Limited Liability Company does not pay federal income taxes. The Company is treated for Federal and State income taxes as if it was a partnership reporting their income under the Sub Chapter K provision of the Internal Revenue Code of 1986. Each member is responsible for reporting their pro rata share of the profits or losses on their tax returns. The Company reports their income for taxes on a calendar year basis. The Company is subject to a 1.5% Illinois replacement tax.

*Depreciation.*

Depreciation is provided on a double declining balance following MACRS lives for all depreciable assets. The estimated useful lives are three years to five years for computers and related software

*Statement of Cash Flows*

For purposes of the Statement of Cash Flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days that are not held for sale in the ordinary course of business.

**Cornerstone Trading, LLC**  
Notes to Financial Statements  
For the Year Ended December 31, 2008

*Recent Accounting Pronouncements*

Beginning January 1, 2008, Statement of Financial Accounting Standards (SFAS) No. 157 on fair value measurement went into effect. SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value. The information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The stand does not expand the use of fair value in any new circumstances. The Company adopted SFAS No. 157 effective January 1, 2008, the impact of the adoption of SFAS No. 157 was not significant to the Company's overall results of operations or financial position.

**NOTE 3 Fair Value of Financial Instruments**

Substantially all of the Company's assets and liabilities are considered financial instruments as defined by Statement of Financial Accounting Standard No. 107 and are either already reflected at fair values, are short-term or replaceable on demand. Therefore, except for the preferred stock ownership, their carrying amounts approximate their fair value.

**NOTE 4 Securities Owned and Sold, but not yet purchased**

Marketable securities owned and sold but not yet purchased consists of trading and investment securities at quoted market value, as illustrated below.

	Sold, net yet purchased
Options	\$3,457,365
Securities	\$4,981,014

**NOTE 5 Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (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 15 to 1 (and the rule of the applicable exchange also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1). Under this rule, the Company is required to maintain "minimum net capital" equivalent to \$100,000 or 6 2/3% of "aggregate indebtedness," whichever is greater, as these terms are defined. At December 31, 2008 the Company had net capital of \$ 6,927,265, which was \$6,827,265 in excess of its required net capital.

**Cornerstone Trading, LLC**  
Notes to Financial Statements  
For the Year Ended December 31, 2008

**NOTE 6      Derivative Financial Instruments**

Derivative financial instruments used for trading purposes, including economic hedges of trading instruments, are carried at market value or, if market prices are not readily available, fair value. Market values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter derivative financial instruments, principally forwards, options, and swaps, are based on pricing models intended to approximate the amounts that would be received from or paid to a third party in settlement of the contracts.

Derivatives used for economic hedging purposes include swaps, forwards, futures, and options. Unrealized gains or losses on these derivative contracts are recognized currently in the statement of income as trading revenues. The Company does not engage in activity in swaps or the forward market.

Financial Instruments and Fair Value of Financial Instruments,” requires disclosures about the amounts, nature, terms and fair values of derivative financial instruments. The statements also requires that a distinction be made between financial instruments held or issued for trading purposes and financial instruments held or issued for purposes other than trading.

The Company invests in exchange traded options on stock for speculative purposes. These contracts are marked to market daily and involve elements of market and credit risk. The Company’s contracts are all exchange-traded whereas the options clearing corporation acts as the counter party of the specific transactions and , therefore, bears the risk of delivery to and from the counter parties.

The Company does not apply hedge accounting as defined in FASB Statement 133, Accounting for Derivative Instruments and Hedging Activities, as all financial instruments are marked to market with changes in fair values reflected in earnings. Therefore, the disclosures required in paragraphs 44 and 45 of the statement are generally not applicable with respect to these financial instruments.

Fair value of options contracts are recorded in securities owned or securities sold, not yet purchased, as appropriate.

Premiums and unrealized gains and losses for written and purchased option contracts are recognized gross in the consolidated statement of financial condition.

**Cornerstone Trading, LLC**  
Notes to Financial Statements  
For the Year Ended December 31, 2008

**NOTE 7 Financial Instruments Held or Issued for Trading Purposes**

The Company trades in exchange trade equities and equity options. The following table summarizes the components of income from proprietary trading transactions and includes the class of financial instruments included.

Equity activities (including equity shares, and options on stock) \$4,695,624

The following amounts disclosed represent the market or fair value of derivative financial instruments at December 31, 2008, and the average market of fair value calculated based upon month end amounts, during the year for those instruments:

December 31, 2008	Asset FMV	Liability FMV	Asset Average. FMV	Liability Average FMV
Options	\$6,458,614	\$3,457,365	6,338,244	\$4,43,609.
Futures ote		3,603	2,795	1,801

**NOTE 8 Payable to Broker-Dealers**

Payable to broker-dealers at December 31, 2008 consist of the following:

Broker-dealer	\$4,773,291
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The amount payable to broker-dealers is primarily from the purchasing of stock, and stock options. The cash balance pays interest at the broker call rate plus 150 basis points. The Company clears all transactions through Merrill Lynch, another broker dealer registered on the Exchange pursuant to a clearing agreement.

At December 31, 2008, substantially all assets of the Company are deposited with the clearing broker.

**NOTE 9 Concentrations of Credit Risk**

The Company and its subsidiaries are engaged in various trading 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 counter party.

**Cornerstone Trading, LLC**  
Notes to Financial Statements  
For the Year Ended December 31, 2008

**NOTE 10      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 (security or commodity price, an index) 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.

**Exchange Member Guarantees**

The Company is a member of various exchanges that trade and clear securities and/or futures contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange. While the rules governing different exchange memberships vary, in general the Company's guarantee obligations would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

**NOTE 11      Commitments and Contingencies**

The Company has no long-term agreements, which would require expenditures in future periods.

**NOTE 12      Preferred Stock**

The Company owns preferred in their broker dealer. The stock is unmarketable and is carried at cost, which is its approximate fair value.

**NOTE 13      Subsequent events**

Nothing to report.

**Cornerstone Trading, LLC**  
**(An Illinois limited liability company)**  
**COMPUTATION OF NET CAPITAL**  
**PURSUANT TO UNIFORM NET CAPITAL RULE 15C3-1**

**December 31, 2008**

<b>Member's equity, December 31, 2008</b>	\$	8,689,814
<b>Less:</b>		
Non allowable assets and other charges		-50,000
Commodity account charges		-65,265
Haircuts		-1,647,284
Undue concentration		0
<b>Net capital</b>		<u><u>6,927,265</u></u>
<b>Required net capital</b>		100,000
<b>Excess capital</b>	\$	<u><u>6,827,265</u></u>
<b>Excess capital @ 1000%</b>	\$	<u><u>6,821,265</u></u>

Note The above information on this schedule is in agreement, in all material respects, with the unaudited FOCUS Report, Part II filed by Cornerstone as of December 31, 2008

The accompanying notes to financial statements  
are an integral part of this statement

**Cornerstone Trading, LLC**  
**(An Illinois limited liability company)**  
**COMPUTATION OF NET CAPITAL**  
**PURSUANT TO UNIFORM NET CAPITAL RULE 15C3-1**

**December 31, 2008**

**COMPUTATION OF AGGREGATE INDEBTEDNESS**

Aggregate Indebtedness

Items included in the balance sheet:

Accrued liabilities	\$ 60,000
	<u>60,000</u>

Ratio: Aggregate Indebtedness to Net Capital	<b>0.866143%</b> to 1
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The accompanying notes to financial statements  
are an integral part of this statement

**Cornerstone Trading, LLC**  
**(An Illinois limited liability company)**  
**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS**  
**AND INFORMATION RELATING TO POSSESSION AND CONTROL**  
**REQUIREMENTS PURSUANT TO RULE 15c3-3**

**December 31, 2008**

**RESERVE COMPUTATION**  
**(See note below)**

**INFORMATION FOR POSSESSION AND CONTROL REQUIREMENTS**  
**(See note below)**

**Note:**       **The Company, is exempt from Rule 15c3-3, it does not transact a business in securities with, or for, other than members of a national securities exchange and does not carry margin amounts, credit balances or securities for any person defined as a “customer” pursuant to Rule 17a-5(c)(4). Accordingly, there are no amounts reportable under these sections.**

**Independent Auditor's Report on Internal Control Structure Required  
by SEC Rule 17a-5**

**To the Members:  
Cornerstone Trading, LLC**

In planning and performing our audit of the financial statements of **Cornerstone Trading, LLC** for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the effectiveness of the Company's internal Control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by **Cornerstone Trading, LLC** that we considered relevant to the objectives stated in rule 17a-5(g), (1) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and the reserve required by rule 15c3-3, Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following.

- (1) in making the quarterly securities examinations, counts, verifications and comparisons, and recordation of differences required by rule 17a-13;
- (2) in complying with the requirements for prompt payment for securities under section 8 of Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining an internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide the owner with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control

The Company, because of its size and limited personnel, is unable to maintain an adequate separation of the various accounting functions. However, the managers of the Company informed me that they exercise close oversight of accounting records daily, thus offsetting the lack of separation of duties. The study and evaluation disclosed no condition that we believed to be a material weakness.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Commission Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2008, to meet the Commission's objectives.

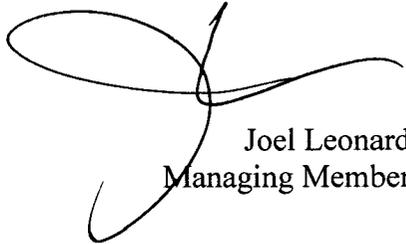
This report is intended solely for the use of management, the Securities and Exchange Commission, the Financial Industry Regulatory Advisors and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.

Sincerely,

  
Robert Cooper & Company CPAs P.C.  
February 25, 2009

**OATH OR AFFIRMATION**  
**REGARDING ACCURACY AND COMPLETENESS**  
**OF FINANCIAL STATEMENTS AS OF FOR**  
**THE PERIOD ENDING DECEMBER 31, 2008**

To the best of my knowledge and belief, the information contained herein is accurate and complete.



Joel Leonard  
Managing Member