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

SEC FILE NUMBER
8-43843

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 1/1/09 AND ENDING 12/31/09  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER - DEALER:  
First Trust Portfolios L.P. and Subsidiaries

OFFICIAL USE ONLY
FIRM ID. NO.

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

120 E. Liberty Drive, Suite 400  
(No. and Street)

Wheaton IL 60187  
(City) (State) (Zip Code)

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

W. Scott Jardine (630) 765-8798  
(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Deloitte & Touche LLP  
(Name - if individual, state last, first, middle name)

111 S. Wacker Chicago IL 60606  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

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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). SEC 1410 (06-02)

## INDEPENDENT AUDITORS' REPORT

To the Partners of  
First Trust Portfolios L.P. and Subsidiaries  
Wheaton, Illinois

We have audited the accompanying consolidated statement of financial condition of First Trust Portfolios L.P. and Subsidiaries (the "Partnership") as of December 31, 2009, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Partnership'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 financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, 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, such consolidated statement of financial condition presents fairly, in all material respects, the financial position of First Trust Portfolios L.P. and Subsidiaries at December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

February 25, 2010

# FIRST TRUST PORTFOLIOS L.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2009

### ASSETS

CASH AND CASH EQUIVALENTS	\$ 13,607,179
CASH SEGREGATED FOR REGULATORY PURPOSES	<u>1,800,000</u>
DEPOSITS WITH CLEARING ORGANIZATIONS	<u>3,389,189</u>
RECEIVABLES:	
Brokers, dealers, and clearing organizations	344,159
Deferred sales charge	1,185,560
Customers	2,438,358
Interest	119,843
Affiliates	6,939,197
Other	<u>2,155,270</u>
Total receivables	<u>13,182,387</u>
PREPAIDS	<u>1,091,733</u>
SECURITIES OWNED	<u>15,678,408</u>
OTHER SECURITIES OWNED	<u>5,122,601</u>
PROPERTY, EQUIPMENT and LEASEHOLD IMPROVEMENTS — At cost, less accumulated depreciation and amortization of \$4,637,581	<u>10,392,724</u>
GOODWILL	<u>1,460,137</u>
INTANGIBLE ASSETS:	
Sponsorship rights, at cost, less accumulated amortization of \$203,948	46,052
Software development costs, at cost, less accumulated amortization of \$563,954	<u>1,280,112</u>
Total intangible assets	<u>1,326,164</u>
OTHER ASSETS	<u>205,585</u>
TOTAL ASSETS	<u>\$ 67,256,107</u>
<b>LIABILITIES AND PARTNERS' CAPITAL</b>	
SECURITIES SOLD, NOT YET PURCHASED	<u>\$ 285,954</u>
PAYABLES:	
Brokers, dealers, and clearing organizations	8,778,637
Customers	1,269,748
Affiliates	<u>300,472</u>
Total payables	<u>10,348,857</u>
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	<u>10,274,792</u>
Total Liabilities	<u>20,909,603</u>
PARTNERS' CAPITAL	
Controlling interest	44,068,101
Non-controlling interest	<u>2,278,403</u>
Total partner's capital	<u>\$ 46,346,504</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$ 67,256,107</u>

See notes to consolidated financial statements.

# FIRST TRUST PORTFOLIOS L.P. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2009

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### 1. DESCRIPTION OF BUSINESS

**Organization** — First Trust Portfolios L.P. and Subsidiaries (the “Partnership”), an Illinois limited partnership, is a registered securities broker-dealer specializing in the underwriting, trading, and distribution of unit investment trusts, closed-end mutual funds, exchange-traded funds, and other securities. The Partnership acts as the sponsor for various series of unit investment trusts including the FT Series, The First Trust Combined Series, The First Trust Special Situations Trust, and The First Trust GNMA (collectively, the “Trusts”). The Partnership also provides underwriting and distribution assistance to closed-end mutual funds and exchange-traded funds advised or sub-advised by its affiliates. The general partner of the Partnership is The Charger Corporation (1%), an Illinois corporation controlled by the Robert D. Van Kampen family. The limited partner is Grace Partners of DuPage L.P. (“Grace”), an Illinois limited partnership (99%).

The Partnership has a majority and controlling interest in BondWave L.L.C. (“BondWave”), a Delaware limited liability company specializing in owning and developing an electronic system designed to aggregate retail demand in the fixed income securities marketplace in the United States of America and in foreign countries, and in providing licenses to third parties for the use of such system. BondWave is also engaged in the business of acting as an investment advisor to clients in the United States and in foreign countries.

The Partnership also has a majority and controlling interest in Stonebridge Advisors L.L.C. (“Stonebridge”), a Delaware limited liability company, which was formed to engage in the business of acting as an investment advisor to clients in the United States and in foreign countries.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** — The consolidated statement of financial condition includes the accounts of the Partnership and its majority-owned subsidiaries BondWave and Stonebridge. In addition, the Partnership has consolidated two entities formed to invest in private companies in which it does not have a majority interest but for which the Partnership has control. The Partnership is engaged in a single line of business as a securities broker-dealer. All intercompany balances and transactions are eliminated in consolidation.

**Cash and Cash Equivalents** — Cash and cash equivalents primarily consist of demand deposits. The Partnership has defined cash equivalents as highly liquid investments, with original maturities of less than 90 days that are not held for sale in the ordinary course of business.

**Cash Segregated for Regulatory Purposes** — Cash of \$1,800,000 has been segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the Securities Exchange Act of 1934.

**Securities Owned and Securities Sold, Not Yet Purchased** — Securities owned, and securities sold, not yet purchased, other than units of unit investment trusts, are carried at fair value which is based on quoted market prices, amounts that approximate quoted values, or amounts that approximate

quoted values for securities of comparable quality, maturity, and interest rate. Units of unit investment trusts are carried at redemption value, which represents fair value. Proprietary securities transactions and related revenues and expenses are recorded on a trade-date basis.

***Customers' Securities Transactions*** — Customer securities transactions are recorded on a settlement date basis and the related revenues and expenses are recorded on a trade-date basis.

***Internal-Use Software*** — The Partnership capitalizes the cost of internal-use software, which has a useful life in excess of one year. Subsequent additions, modifications, or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized computer software costs are amortized using the straight-line method over a period of five years.

***Property, Equipment and Leasehold Improvements*** — Depreciation of property and equipment is computed using an accelerated method over the estimated useful lives of such assets which range from five to seven years. Leasehold improvements are carried at cost and amortized over the shorter of the term of the applicable lease agreement or the life of the asset.

***Goodwill*** — Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired. Goodwill is not amortized but is tested at least annually for impairment.

***Sponsorship Rights*** — The Partnership acquired sponsorship rights for equity unit investment trusts at a cost of \$250,000. Amortization of the sponsorship rights is computed using the straight-line method over the useful lives of such assets which range from one to forty years.

***Software Development Costs*** — Software development costs are accounted for in accordance with FASB ASC Topic 985-20, "*Costs of Software to Be Sold, Leased, or Marketed*" (Topic 985-20), (formerly Statement of Financial Accounting Standards No. 86, "*Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*" ("SFAS 86")). Costs associated with the planning and design phase of software development, including coding and testing activities necessary to establish technological feasibility of computer software products to be licensed or otherwise marketed, are expensed as research and development costs as incurred. Once technological feasibility has been determined, costs incurred in the construction phase of software development including coding, testing, and product quality assurance are capitalized. In accordance with ASC Topic 985-20, the Partnership has capitalized software for which the Partnership believes technological feasibility has been established. On an annual basis, BondWave compares its software development costs to the net realizable value of such assets. At December 31, 2009, the net realizable value of software development costs exceeded the cost of these assets, thus no impairment adjustment was deemed necessary.

***Income Taxes*** — The Partnership is not subject to federal income tax as all taxable income or loss of the Partnership is included in the federal income tax returns of the partners. The Partnership is subject to tax accounting standards that establish a minimum threshold for recognizing, and a system for measuring, the benefits of a tax position taken or expected to be taken in a tax return. Tax years ended 2006, 2007, 2008 and 2009 remain open to federal and state audit. As of December 31, 2009, management has evaluated the application of these standards to the Partnership, and has determined that no provision for income tax is required in the Partnership's statement of financial condition for uncertain tax positions.

The Illinois Replacement Tax is to be paid by the highest tiered partnership, C corporation, S corporation, or trust in a tiered structure. As such, the Partnership is not subject to Illinois Replacement Tax as all the income generated in the state flows through to its partners, who are partnerships in the tiered partnership structure.

***Use of Estimates*** — The preparation of the consolidated statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires 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 consolidated statement of financial condition. Actual results could differ from those estimates.

***Financial Instruments*** — All of the financial instruments of the Partnership are carried at amounts that approximate fair value.

***Fair Value Measurements*** — The fair value measurement accounting guidance within FASB issued ASC Topic 820, “*Fair Value Measurements and Disclosures*” (Topic 820), (formerly SFAS No. 157, *Fair Value Measurements*) describes the following three levels used to classify fair value measurements:

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Partnership’s own assumptions in determining the fair value of investments).

The following is a description of the valuation methodologies used for securities measured at fair value, based on the consolidated statement of financial condition classification. Management, from time to time, may make fair value adjustments to valuation methodologies described below under certain market conditions. Management maintains a consistent policy and process for identifying when and how such adjustments should be made. To the extent a significant fair value adjustment is made by management, the valuation classification would generally be considered a Level 3 within the fair value hierarchy.

**Securities Owned** — Securities owned include units of unit investment trusts and state and municipal obligations. Units of unit investment trusts are carried at redemption value, which represents fair value. Units of unit investment trusts are classified as Level 1 within the fair value hierarchy. State and municipal obligations are carried at fair value which is based on quoted market prices, amounts that approximate quoted values or amounts that approximate quoted values for securities of comparable quality, maturity, and interest rate. State and municipal obligations are classified as Level 2 within the fair value hierarchy.

**Other Securities Owned** — Other securities owned include common shares, shares of closed-end funds and exchange traded funds and private equity investments. Common shares are carried at fair value which is based on quoted market prices. Common shares are classified as Level 1 within the fair value hierarchy. Shares of closed-end funds and exchange traded funds represent seed investments in such funds. Shares of closed-end funds and exchange traded funds are carried at fair value which is based on quoted market prices. Shares of closed-end funds and exchange traded

funds are classified as Level 2 within the fair value hierarchy. The valuation of private equity investments is based on unobservable inputs and, thus are classified as Level 3 within the fair value hierarchy.

**Securities Sold, Not Yet Purchased**— Securities sold, not yet purchased consist of units of unit investment trusts. Units of unit investment trusts are carried at redemption value, which represents fair value. Units of unit investment trusts are classified as Level 1 within the fair value hierarchy.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. A summary of the inputs used to value the Partnership's net assets as of December 31, 2009 is as follows:

<b>Valuation Inputs</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Securities Owned:			
Unit investment trusts	\$ 5,329,815	\$ 3,821,492	\$ -
State and municipal obligations	-	6,527,101	-
Other Securities Owned:			
Closed end funds	-	256,329	-
Exchange traded funds	-	217	-
Private equity investments	-	-	4,501,650
Common stock	177,693	186,712	-
<b>Total</b>	<b>\$ 5,507,508</b>	<b>\$ 10,791,851</b>	<b>\$ 4,501,650</b>
Securities Sold, Not Yet Purchased:			
Unit investment trusts	\$ 285,954	\$ -	\$ -

The Partnership did not have any liabilities that were measured at fair value on a recurring basis at December 31, 2009, other than securities sold, not yet purchased.

As of December 31, 2009, the Partnership carried one loan included in other receivables at \$250,000 which was recorded at fair value on a nonrecurring basis. The fair value of this loan was based on estimates derived from market indications, management's assumptions, and the estimated amount and timing of future cash flows. The Partnership classified this fair value measurement as Level 3.

**Recent Accounting Pronouncements** - In December 2007, the FASB issued ASC Topic 810 "Consolidation" (Topic 810), (formerly SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*), which establishes accounting and reporting requirements for non-controlling interests, which the Company previously referred to as minority interest. Topic 810 requires non-controlling interests to be reported as a component of partners' capital on the consolidated statement of financial position. The Partnership adopted Topic 810 on January 1, 2009 and has presented the consolidated statement of financial condition as of December 31, 2009 in accordance with Topic 810.

In June 2009, the FASB issued ASU No. 2009-16 (formerly, SFAS No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140*, which requires additional information regarding transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. ASU No. 2009-16 eliminates the concept of a "qualifying special-purpose entity," changes the requirements for

derecognizing financial assets, and requires additional disclosures. ASU No. 2009-16 is effective for fiscal years beginning after November 15, 2009. Management is currently evaluating the impact of adoption of ASU No. 2009-16 will have on its consolidated statement of financial condition.

In June 2009, the FASB issued ASC Topic 810 "Consolidation" (Topic 810), (formerly, SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*), which modifies how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. Topic 810 clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. Topic 810 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. Topic 810 also requires additional disclosures about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. Topic 810 is effective for fiscal years beginning after November 15, 2009. Management is currently evaluating the impact that the adoption of Topic 810 will have on its consolidated statement of financial condition.

### 3. PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Property, equipment, and leasehold improvements at December 31, 2009, are summarized as follows:

Computer hardware	\$ 2,427,625
Furniture and fixtures	2,862,389
Office equipment	797,726
Internal-use software	742,848
Leasehold improvements	<u>8,199,717</u>
	15,030,305
Less accumulated depreciation and amortization	<u>(4,637,581)</u>
Total	<u>\$ 10,392,724</u>

### 4. SECURITIES OWNED, OTHER SECURITIES OWNED, AND SECURITIES SOLD, NOT YET PURCHASED

Securities owned, other securities owned, and securities sold, not yet purchased by the Partnership at December 31, 2009, consist of:

	<u>Securities Owned</u>	<u>Other Securities Owned</u>	<u>Securities Sold, not yet Purchased</u>
Unit investment trusts	\$ 9,151,307	\$ -	\$ 285,954
Closed-end funds	-	256,329	-
Exchange traded funds	-	217	-
State and municipal obligations	6,527,101	-	-
Private equity investments	-	4,501,650	-
Common stock	-	<u>364,405</u>	-
Total	<u>\$ 15,678,408</u>	<u>\$ 5,122,601</u>	<u>\$ 285,954</u>



Securities sold, not yet purchased, represent obligations of the Partnership to deliver the specified security at the contracted price, and thereby create a liability to purchase the security in the market at prevailing prices which may differ from the fair values reflected in the consolidated statement of financial condition.

**5. LETTERS OF CREDIT**

The Partnership, in the ordinary course of business, is contingently liable under outstanding letter of credit agreements aggregating approximately \$3 million at December 31, 2009.

**6. SHORT-TERM BANK BORROWINGS**

The Partnership has an arrangement with a bank to borrow funds on a short-term basis, payable on demand. Short-term bank borrowings are collateralized principally by securities owned by the Partnership on a settlement day basis. The short-term bank borrowings bear interest at variable rates based on the Federal Funds rate plus 50 basis points. The interest rate under this arrangement was 1.375% at December 31, 2009. There were no outstanding borrowings under this arrangement as of December 31, 2009.

**7. COMMITMENTS AND CONTINGENCIES**

The Partnership has a noncancelable operating lease agreement for office space in Wheaton, Illinois. The agreement was effective October 1, 2008 and expires on October 31, 2019. The following are future minimum lease obligations on the Partnership's office lease:

<u>Year Ending December 31</u>	<u>Amount</u>
2010	\$ 1,509,074
2011	1,449,002
2012	1,453,761
2013	1,431,055
2014	1,471,748
Thereafter	<u>7,684,289</u>
 Total	 <u>\$ 14,998,929</u>

The Partnership, as of February 25, 2010, intends to provide capital, when necessary, to BondWave and Stonebridge, for at least the next 12 months to meet the operating obligations that BondWave and Stonebridge incur and to meet any applicable regulatory requirements.

In the normal course of business, the Partnership enters into underwriting commitments. Transactions relating to such underwriting commitments that were open at December 31, 2009, and were subsequently settled had no material effect on the consolidated statement of financial condition as of that date.

**8. RELATED-PARTY TRANSACTIONS**

Receivables from affiliates related through common ownership are with First Trust Global Enterprises L.P., First Defined Portfolio Management Co., First Trust Advisors L.P, and FTP Services L.L.C.

Operations of the Partnership are conducted in facilities and by personnel shared with an affiliate. The Partnership allocates a portion of the costs to this affiliate. At December 31, 2009, amounts due on this arrangement totaled \$2,385,302 and are included in due from affiliates on the consolidated statement of financial condition.

The Partnership is reimbursed by the Trusts for certain organization and offering costs paid by the Partnership on behalf of such Trusts.

Certain employees of the Partnership own limited partnership interests in Grace.

The Partnership has an arrangement with an affiliate in Canada to provide services in connection with the affiliate's mutual fund product line. The arrangement calls for the payment of fees to the Partnership based on a percentage of the aggregate subscription price of all units purchased, and a percentage of the net asset value and an amount equal to the trailing commission. At December 31, 2009, amounts due on this arrangement totaled \$137,673 and are included in receivables from affiliates on the consolidated statement of financial condition.

At December 31, 2009, the Partnership had an amount due of \$3,746,157 from an affiliate, First Trust Global Enterprises L.P. ("Global Enterprises") for expenses paid on Global Enterprises' behalf. This receivable is included in receivables from affiliates on the consolidated statement of financial condition.

At December 31, 2009, the Partnership had an amount due of \$611,531 from an affiliate, FTP Services L.L.C. for expenses paid on the behalf of FTP Services L.L.C. This receivable is included in receivables from affiliates on the consolidated statement of financial condition.

## **9. EMPLOYEE BENEFIT PLAN**

The Partnership has a defined contribution plan, under Section 401(k) of the Internal Revenue Code, available to all eligible employees. Participants can contribute up to 100% of their annual salary to the plan to a maximum of \$16,500 during the year ended December 31, 2009. Partnership contributions are at the discretion of management.

## **10. NET CAPITAL REQUIREMENTS**

As a registered broker-dealer with the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority, Inc. ("FINRA"), the Partnership is subject to the SEC's Rule 15c3-1 under the Securities Exchange Act of 1934. This rule prohibits a broker-dealer from engaging in any securities transaction at a time when its net capital is less than the greater of 6-2/3% of aggregate indebtedness, as those terms are defined, or \$250,000.

At December 31, 2009, the Partnership had net capital of \$15,395,968 which was \$14,669,411 in excess of its required net capital of \$726,557. The Partnership's ratio of aggregate indebtedness to net capital was 0.71 to 1.00.

Capital distributions are anticipated to be made to Grace within the first six months of 2010, subject to applicable SEC and FINRA limitations.

Advances to affiliates and other capital withdrawals are subject to certain notification and other provisions of the net capital rule of the SEC.

## 11. SUBSEQUENT EVENTS

The Partnership has evaluated events subsequent to December 31, 2009 to assess the need for potential recognition or disclosure in the consolidated statement of financial condition. Such events were evaluated through February 25, 2010, the date these financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or disclosure in the consolidated statement of financial condition.

\* \* \* \* \*

February 25, 2010

Tel: +1 312 486 1000  
Fax: +1 312 486 1486  
www.deloitte.com

To the Partners of  
First Trust Portfolios L.P. and Subsidiaries  
Wheaton, Illinois

In planning and performing our audit of the consolidated financial statements of First Trust Portfolios L.P. and Subsidiaries (the "Partnership") as of and for the year ended December 31, 2009 (on which we issued our report dated February 25, 2010 and such report expressed an unqualified opinion on those consolidated financial statements), in accordance with auditing standards generally accepted in the United States of America, we considered the Partnership's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly, we do not express an opinion on the effectiveness of the Partnership's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission ("SEC"), we have made a study of the practices and procedures followed by the Partnership, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following: (1) making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e) (including the practices and procedures followed by the Partnership in making the periodic computations for proprietary accounts of introducing brokers (PAIB)); (2) making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13; (3) complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System; and (4) obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Partnership is responsible for establishing and maintaining internal control 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 controls 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 SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Partnership 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 internal control and the practices and procedures referred to above, error or fraud 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.

A *deficiency* in internal control 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 and correct misstatements on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities 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 Partnership's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2009, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, Financial Industry Regulatory Authority, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered broker-dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

*Deloitte & Touche LLP*