VAN KAMPEN FUNDS INC.
(SEC I.D. No. 8-19412)

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

AS OF JUNE 30, 2009

(Unaudited)

VAN KAMPEN FUNDS INC.
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
June 30, 2009
(Unaudited)
(In thousands of dollars, except share data)

ASSETS	
Cash and cash equivalents	$ 145,313
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	14,748
Financial instruments owned, at fair value:	
Municipal bonds	2,521
Corporate bonds	1,599
Corporate equities	14,424
Investments	3,808
Receivables:	
Customers	40,225
Brokers, dealers and clearing organizations	72,773
Funds	8,829
Trustee	3,106
Fees, interest and other	803
Affiliates	7,632
Goodwill	17,768
Other assets	350
Total assets	$ 333,899
LIABILITIES AND STOCKHOLDER'S EQUITY	
Liabilities:	
Short-term borrowings from affiliates	$ 25,702
Financial instruments sold, not yet purchased, at fair value:	
Corporate equities	1,780
Derivative contracts	612
Payables:	
Customers	20,121
Brokers, dealers and clearing organizations	96,301
Trustee	27,568
Other liabilities and accrued expenses	15,812
Total liabilities	187,896
Redeemable non-controlling interest	3,823
Stockholder's equity	
Common stock ($100 par value, 2,500 shares authorized, issued and outstanding)	250
Additional paid-in capital	107,365
Retained earnings	34,565
Total stockholder's equity	142,180
Total liabilities and equity	$ 333,899

See Notes to Consolidated Statement of Financial Condition.

Note 1 – Introduction and Basis of Presentation

The Company

Van Kampen Funds Inc. (the "Company") is a Delaware corporation and a registered broker-dealer under the Securities Exchange Act of 1934. The Company is a sponsor of Unit Investment Trusts ("UITs") and distributor of the Van Kampen open and closed end funds (collectively, the "Funds"). The Company is a wholly owned subsidiary of Van Kampen Investments Inc. (the "Parent"), which is a wholly owned indirect subsidiary of Morgan Stanley ("MS"). The Company's products are sold by unaffiliated distributors and by subsidiaries of MS.

Change in Fiscal Year End

The Board of Directors of the Company approved a change in the Company's fiscal year end from November 30 to December 31 of each year. This change to the calendar year reporting cycle began December 1, 2008. As a result of the change, the Company will have a thirteen month reporting period in December 2009. The unaudited results for the one month period ended December 31, 2008 are included in this report.

Basis of Financial Information

The consolidated statement of financial condition is prepared in accordance with accounting principles generally accepted in the U.S., which require the Company to make estimates and assumptions regarding the valuations of certain financial instruments, the valuations of goodwill, the outcome of litigation and other matters that affect the reported amounts in the consolidated statement of financial condition and related disclosures. The Company believes that the estimates utilized in the preparation of the consolidated statement of financial condition are prudent and reasonable. Actual results could differ materially from these estimates.

All material intercompany accounts and transactions have been eliminated in consolidation.

Consolidation

The consolidated statement of financial condition includes the accounts of Van Kampen Funds Inc. and one UIT in which the Company has a controlling financial interest. The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" ("SFAS No. 160") on January 1, 2009. Accordingly, for consolidated UITs that are less than wholly owned, the third-party holdings of equity interests are referred to as redeemable non-controlling interests. The portion of such UITs is presented as redeemable non-controlling interests on the consolidated statement of financial condition.

Related Party Transactions

Transactions with the Parent and its affiliates primarily include reimbursement of expenses, sales of the deferred commission assets and deferred sales charge receivables related to UITs, tax transactions and short-term borrowings.

Distribution Costs

The sale of Company sponsored UITs that involve a deferred sales charge to the purchaser of those products result in deferred sales charge receivables, which are due to the Company from the UITs. The Company sells the deferred sales charge receivables to its Parent at cost.

The Company compensates an affiliate in connection with volume concessions based on the sale of UITs and second year deferred sales charge based on units outstanding.

The Company compensates an affiliate in connection with the sale, distribution, retention, and/or servicing of Fund shares.

Short Term Borrowings

Short-term borrowings from affiliates are unsecured, bear interest at prevailing market rates and are payable on demand. The balance consists primarily of intercompany funding from the Parent and MS as well as other intercompany payables.

Note 2 – Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments not held for resale with maturities, when purchased, of three months or less. They are primarily comprised of investments in money market funds sponsored by an affiliate.

Cash Deposited with Clearing Organizations or Segregated under Federal and Other Regulations or Requirements

Cash deposited with clearing organizations or segregated under federal and other regulations or requirements includes cash segregated in compliance with federal and other regulations and represent the clearing fund requirement held with the National Securities Clearing Corporation and Depository Trust & Clearing Corporation. It also includes a certificate of deposit segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the Securities Exchange Act of 1934.

Financial Instruments and Fair Value

All of the Company's financial instruments are carried at fair value with changes in fair value recognized in earnings each period. A description of the Company's policies regarding fair value measurement and its application to these financial instruments follows:

Financial Instruments Measured at Fair Value

All of the instruments within Financial instruments owned and Financial instruments sold, not yet purchased, are measured at fair value. These instruments primarily represent the Company's trading and investment activities and include both cash and derivative products.

Fair Value Option

The fair value option permits the irrevocable fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company has not elected the fair value option for any financial instruments.

Fair Value Measurement – Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 -- Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

  An example of assets and liabilities utilizing Level 1 inputs includes corporate equities.

- Level 2 -- Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

  An example of assets and liabilities utilizing Level 2 inputs includes investments, corporate and other debt, and derivative contracts.

- Level 3 -- Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

  An example of assets and liabilities utilizing Level 3 inputs includes certain derivative contracts.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3.

The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3 (see Note 3). In addition, a downturn in market conditions could lead to further declines in the valuation of many instruments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Valuation Techniques

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those the Company believes that market participants would use in pricing the asset or liability at the measurement date.

Corporate and Other Debt

Corporate and other debt consists primarily of municipal and corporate bonds. The fair value of municipal and corporate bonds is estimated using recently executed transactions, market price quotations (where observable), bond spreads, or credit default swap spreads. The spread data used is for the same maturity as the bond. If the spread data does not reference the issuer, then data that references a comparable issuer is used. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single name credit default swaps spreads, and recovery rates based on collateral value as significant inputs. Corporate bonds and other debt are generally categorized in Level 2 of the fair value hierarchy.

Corporate Equities

The fair value of corporate equities are generally valued based on quoted prices from an exchange. To the extent these securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy.

Investments

Investments include underlying investments held by UITs in which the Company owns a majority interest. The underlying investments within the UIT in which the Company owns majority interest are categorized within Level 2 of the fair value hierarchy.

Derivatives

The Company uses U.S. Treasury futures, which are types of derivative financial instruments, to economically hedge against market value changes in its trading inventory. Open futures contracts are marked to market daily and are categorized in Level 1 of the fair value hierarchy.

The Company is a party to a swap agreement with certain affiliates to economically hedge against the costs the Company incurs in connection with certain deferred compensation plans in which the Company participates. Under the agreement, the counterparties are contractually obligated to make payments for the performance of certain investment funds to the Company, based on the Company's employees participation and investment elections in such deferred compensation plans.

Depending on the product and the terms of the transaction, the fair value of derivative products can be modeled using a series of techniques. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swap and option contracts. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry.

Other derivative products, typically the newest and most complex products, will require more judgment in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs. These instruments involve significant unobservable inputs and are categorized in Level 3 of the fair value hierarchy. See note 4 regarding additional disclosures for Derivative Instruments and Hedging Activities.

Receivables and Payables - Customers

Receivables and payables from customers represents unsettled trades of securities to UITs, which are recorded on trade date.

Receivables and Payables – Brokers, Dealers and Clearing Organizations

Receivables and payables to brokers, dealers and clearing organizations represent unsettled trades of securities from brokers based on the activity of the UITs, which are recorded on trade date.

Receivables – Funds

Receivables from the Funds represent shareholder servicing fees due from the Funds.

Income Taxes

Provision for income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are determined based upon the temporary differences between the financial statement and income tax basis of assets and liabilities, using currently enacted tax rates and laws that will be in effect when such differences are expected to reverse.

Goodwill

Goodwill is not amortized and is reviewed annually (or more frequently when certain events or circumstances exist) for impairment.

Risk Management

The Company's risk management policies and related procedures are integrated with those of MS and its other consolidated subsidiaries. These policies and related procedures are administered on a coordinated global basis with consideration given to each subsidiary, including the Company's specific capital and regulatory requirements.

The cornerstone of MS's risk management philosophy is protection of MS's franchise, reputation and financial standing. MS's risk management philosophy is based on the following principles: comprehensiveness, independence, accountability, defined risk tolerance and transparency. Given the importance of effective risk management to MS's reputation, senior management requires thorough and frequent communication and appropriate escalation of risk matters.

Risk management at MS requires independent MS-level oversight, constant communication, judgment, and knowledge of specialized products and markets. MS's senior management takes an active role in the identification, assessment and management of various risks of MS. In recognition of the increasingly varied and complex nature of the global financial services business, MS's risk management philosophy, with its attendant policies, procedures and methodologies, is evolutionary in nature and subject to ongoing review and modification.

The nature of MS's risks, coupled with this risk management philosophy, informs MS's risk governance structure. MS's risk governance structure includes the Firm Risk Committee, the Capital Structure and Strategic Transactions Committee, the Chief Risk Officer, the Internal Audit Department, independent control groups and various risk control managers, committees and groups located within and across the business units.

The Firm Risk Committee, composed of MS's most senior officers, oversees MS's risk management structure. The Firm Risk Committee's responsibilities include oversight of MS's risk management principles, procedures and limits, and the monitoring of material financial, operational and franchise risks. The Firm Risk Committee is overseen by the Audit Committee of the Board of Directors (the "Audit Committee"). The Capital Structure and Strategic Transactions Committee (the "Capital Committee") reviews strategic transactions for MS and significant changes to MS's capital structure. The Capital Committee's responsibilities include reviewing measures of capital and evaluating capital resources relative to MS's risk profile and strategy.

The Chief Risk Officer, a member of the Firm Risk Committee, oversees compliance with MS risk limits; approves certain excesses of MS risk limits; reviews material market, credit and operational risks; reviews results of risk management processes with the Audit Committee.

The Internal Audit Department provides independent risk and control assessment and reports to the Audit Committee and administratively to the Chief Legal Officer. The Internal Audit Department examines MS's operational and control environment and conducts audits designed to cover all major risk categories.

The Market Risk, Credit Risk, Operational Risk, Financial Control, Treasury and Legal and Compliance Departments (collectively, the "Company Control Groups"), which are all independent of MS's business units, assist senior management and the Firm Risk Committee in monitoring and controlling MS's risk through a number of control processes. MS is committed to employing qualified personnel with appropriate expertise in each of its various administrative and business areas to implement effectively MS's risk management and monitoring systems and processes.

Each business unit has a risk committee that is responsible for ensuring that the business unit, as applicable adheres to established limits for market, credit, operational and other risks; implements risk measurement, monitoring, and management policies and procedures that are consistent with the risk framework established by the Firm Risk Committee; and reviews, on a periodic basis, its aggregate risk exposures, risk exception experience, and the efficacy of its risk identification, measurement, monitoring, and management policies and procedures, and related controls.

Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, the Company incurs market risk primarily from trading and investment activities.

The Company's market risk policies and related procedures are integrated with those of MS and its other consolidated subsidiaries. Sound market risk management is an integral part of the MS's culture. The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. The Control Groups help ensure that these risks are measured and closely monitored and are made transparent to senior management. The Market Risk Department is responsible for ensuring transparency of material market risks, monitoring compliance with established limits, and escalating risk concentrations to appropriate senior management. To execute these responsibilities, the Market Risk Department monitors MS's risk against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries, and maintains MS's VaR system. A variety of limits is designed to control price and market liquidity risk. Market risk is monitored through various measures: statistically (using VaR and related analytical measures); by measures of position sensitivity; and through routine stress testing and scenario analyses conducted by the Market Risk Department in collaboration with the business units. The material risks identified by these processes are summarized in reports produced by the Market Risk Department that are circulated to and discussed with senior management.

Counterparty Risk

The Company holds derivative instruments that contain an element of risk in the event that the counterparties may be unable to meet the terms of such agreements. Our risk exposure is minimized by limiting the counterparties with which we enter into contracts to banks, investment banks, as well as the Company's affiliates who meet established credit and capital guidelines. We are not aware of any circumstances where any counterparty has defaulted on its obligations and therefore do not expect to incur any loss due to counterparty default. See note 4 regarding additional disclosures for derivative instruments and hedging activities.

Accounting Developments

In April 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"). FSP FAS 142-3 removes the requirement of SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142") for an entity to consider, when determining the useful life of an acquired intangible asset, whether the intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions associated with the intangible asset. FSP FAS 142-3 replaces the previous useful-life assessment criteria with a requirement that an entity considers its own experience in renewing similar arrangements. If the entity has no relevant experience, it would consider market participant assumptions regarding renewal. The adoption of FSP FAS 142-3 on January 1, 2009 did not have a material impact on the Company's consolidated statement of financial condition.

In December 2008, the FASB issued FSP FAS 132(R)-1, "Employer's Disclosures about Postretirement Benefit Plan Assets" (FSP FAS 132(R)-1). FSP FAS 132(R)-1 amends SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits", to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP will be effective December 31, 2009 for the Company.

In April 2009, the FASB issued FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4") and FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1" and "APB 28-1"). FSP FAS 157-4 provides additional application guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what SFAS No. 157, "Fair Value Measurements" states is the objective of fair value measurement—to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed or forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The Company adopted FSP FAS 157-4 in the quarter ended June 30, 2009. The adoption did not have a material impact on the Company's consolidated statement of financial condition.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"). The objective of SFAS No. 165 is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. The Company evaluates subsequent events through the date that the Company's financial statements are issued. The Company adopted SFAS No. 165 in the quarter ended June 30, 2009. The adoption of SFAS No. 165 did not have a material impact on the Company's consolidated statement of financial condition.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets" ("SFAS No. 166"), and SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167"), which change the way entities account for securitizations and special-purpose entities.

SFAS No. 166 amends SFAS No. 140 and will require additional disclosures about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a QSPE and changes the requirements for derecognizing financial assets.

SFAS No. 167 amends FASB Interpretation No. 46, as revised ("FIN 46R"), "Consolidation of Variable Interest Entities," and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance.

The Company is currently evaluating the impact of adopting SFAS No. 166 and SFAS No. 167 on the consolidated statement of financial condition. SFAS No. 166 and SFAS No. 167 will be effective for the Company on January 1, 2010.

In July 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162" ("SFAS No. 168"). SFAS No. 168 establishes the FASB Accounting Standards Codification™ ("Codification") to become the source of authoritative U.S. generally accepted accounting principles ("U.S. GAAP") recognized by the FASB to be applied by nongovernmental entities. All existing accounting standard documents are superseded. All other accounting literature not included in the Codification will be considered non-authoritative. The Codification does not change current GAAP. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company plans to adopt the Codification in the year ended December 31, 2009. The Company does not expect the adoption to have a material impact on the Company's consolidated statement of financial condition. References to authoritative U.S. GAAP literature, however, in the Company's financial statements, notes thereto will be updated to reflect new Codification references.

Note 3 – Fair Value Disclosure

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157. See Note 2 for a discussion of the Company's policies regarding this hierarchy.

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2009.

Assets and Liabilities measured at Fair Value on Recurring Basis as of June 30, 2009

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2009
Assets				
Financial instruments owned:				
Municipal bonds	$ -	$ 2,521	$ -	$ 2,521
Corporate bonds	-	1,599	-	1,599
Corporate equities	14,424	-	-	14,424
Investments - UIT corporate bonds	-	3,808	-	3,808
Total Financial Instrument Owned	$ 14,424	$ 7,928	$ -	$ 22,352
Liabilities				
Financial instruments sold, not yet purchased:				
Corporate equities	$ (1,780)	$ -	$ -	$ (1,780)
Derivatives contracts	(60)	-	(552)	(612)
Financial instruments sold, not yet purchased:	$ (1,840)	$ -	$ (552)	$ (2,392)

The following table presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis as of June 30, 2009. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a result, the realized and unrealized gains or (losses) for assets and liabilities within the Level 3 category presented in the tables below do not reflect the related realized and unrealized gains or (losses) on hedging instruments that have been classified by the Company within the Level 1 and/or Level 2 categories. Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealized gains or (losses) during the period for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value during the period that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

The following table reflects gains and (losses), including gains and (losses) on assets and liabilities that were transferred to Level 3 during the period ended June 30, 2009. The table does not include gains or losses that were reported in Level 3 in prior periods for instruments that were transferred out of Level 3 prior to the end of the period presented.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the period ended June 30, 2009

	Beginning Balance at December 1, 2008	Total Realized and Unrealized Gains or (Losses)	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers Into Level 3	Ending Balance at June 30, 2009	Unrealized Gains or (Losses) for Level 3 Assets/Liabilities Outstanding at June 30, 2009
Liabilities						
Financial instruments sold, not yet purchased:						
Derivatives contracts	$ (389)	$ (163)	$ -	$ -	$ (552)	$ (552)

Financial instruments sold, not yet purchased—Derivative contracts

The net losses from derivative contracts were primarily driven by market fluctuation.

Note 4 – Derivative Instruments and Hedging Activities

The Company holds positions in listed futures and is party to a swap agreement. The Company uses these instruments for asset and liability management. See note 2 for discussion regarding derivatives.

The Company manages its positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (e.g., futures). The Company manages the market risk associated with its hedging activities on a Company-wide basis and on an individual product basis.

In connection with its derivative activities, the Company may enter into collateral arrangements with counterparties. These agreements provide the Company with the ability to offset a counterparty's rights and obligations, request additional collateral when necessary or liquidate the collateral in the event of counterparty default. See note 2 for discussion regarding counterparty risk.

The following table summarizes the fair value of derivative instruments not designated as accounting hedges by type of derivative contract on a gross basis as of June 30, 2009. Fair values of derivative contracts in a liability position are reflected in Financial instruments sold, not yet purchased—derivative contracts.

	Liabilities at June 30, 2009	
	Fair Value	Notional
Derivatives not designated as accounting hedges:		
Futures contracts	$ 60	$ 4,612
Swap	552	1,594
	$ 612	$ 6,206

Note 5 – Cash deposited with clearing organizations or segregated

Cash deposited with clearing organizations or segregated includes a certificate of deposit of $2,500. It also includes cash held in the amount of $12,248 as a margin requirement for the hedging of equity and fixed income UITs as well as cash to cover the value of short positions held with the brokers.

Note 6 – Goodwill

The Company performed an interim impairment test of goodwill as November 30, 2008, which did not result in an impairment.

Note 7 – Commitments and Contingencies

Underwriting Commitments

In the normal course of business, the Company enters into when-issued, delayed delivery and underwriting commitments. At June 30, 2009, there was approximately $27,568 of outstanding net purchase commitments.

Letters of Credit

The Company enters into standby letters of credit with a bank as part of its contractual commitment to deliver securities to the UITs that it sponsors. At June 30, 2009, approximately $27,568 was outstanding under these agreements with expiration dates ranging from June 17, 2009 through June 30, 2009. The Company is charged an annual interest rate of 0.125% on amounts outstanding. These credit agreements are unsecured and do not contain restrictive covenants.

Legal

In the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages.

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company's business, including, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

The Company contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, the Company cannot predict with certainty the loss or range of loss, if any, related to such matters; how or if such matters will be resolved; when they will ultimately be resolved; or what the eventual settlement, fine, penalty or other relief, if any, might be. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the condensed consolidated financial condition of the Company. There are currently no legal reserves recorded by the Company.

Note 8 – Employee Compensation Plans

Employees of the Company participate in compensation plans sponsored by MS. The following summarizes these plans:

Employee Benefit Plan

Substantially all of the U.S. employees hired before July 1, 2007 are covered by a non-contributory defined benefit plan and other postretirement benefits plans sponsored by MS. MS's U.S. Qualified Plan was closed to new participants effective July 1, 2007 . In lieu of a defined benefit pension plan, eligible employees who were first hired, rehired or transferred to the U.S. benefits eligible position on or after July 1, 2007 will receive a retirement contribution into their 401(k) plan. The amount of the retirement contribution is included in MS's 401(k) cost and will be equal to between 2% and 5% of eligible pay based on years of service as of December 31. Pension benefits are based on each employee's years of credited service and compensation levels specified in the plan. Certain employees are covered by postretirement plans sponsored by MS that provide medical and life insurance for eligible retirees and dependents. Employees of the Company are eligible to participate in a 401(k) plan sponsored by MS upon meeting certain eligibility requirements.

Equity-Based Compensation Plans

Eligible employees of the Company participate in several of MS's equity-based stock compensation plans. MS accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R revised the fair value-based method of accounting for share-based payment liabilities, forfeitures and modifications of stock-based awards and clarified guidance in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to service periods.

SFAS No. 123R requires measurement of compensation cost for equity-based awards at fair value and recognition of compensation cost over the service period, net of estimated forfeitures. MS determines fair value of restricted stock units based on the number of units granted and the grant date fair value of its common stock, measured as the volume-weighted average price on the date of grant. The fair value of stock options is determined using the Black-Scholes valuation model and the single grant life method. Under the single grant life method, option awards with graded vesting are valued using a single weighted-average expected option life. Compensation expense for all stock-based payment awards is recognized using the graded vesting attribution method. During the current fiscal year, employees were permitted to purchase shares of MS common stock at a 15% discount from market value under the Employee Stock Purchase Plan (the "ESPP"). MS expensed the 15% discount associated with the ESPP and allocated a portion to the Company.

MS recognizes the compensation cost for stock-based awards (net of estimated forfeitures) over the requisite service period. For anticipated year-end equity awards that are granted to retirement-eligible employees in the first quarter of the following fiscal year, MS's accounting policy is to accrue the estimated cost of such awards over the course of the current fiscal year.

Equity-based compensation costs are charged to the Company by MS based upon the awards granted to employees in the Company participating in the programs.

Note 9 – Income Taxes

The Company is included in the consolidated federal income tax return filed by MS and certain other subsidiaries. Federal income taxes have been provided on a separate entity basis. The Company files separate state and local tax returns and is included in various unitary and combined tax filings. Accordingly, state and local income taxes have been provided on separate entity income based upon the separate company and unitary/combined effective tax rates.

In accordance with the terms of the Tax Allocation Agreement with MS, all current and deferred federal and unitary/combined state taxes are offset with other intercompany balances with MS.

Deferred income taxes reflect the net tax effect of the temporary differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets are primarily attributable to deferred compensation and incentive compensation bonus plans. Deferred tax liabilities are primarily attributable to goodwill amortization.

Accounting for Uncertainty in Income Taxes

It is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next twelve months. However, at this time it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and the impact on the effective rate over the next twelve months.

The Company, through its inclusion in MS's returns, is under continuous examination by the Internal Revenue Service ("IRS") and states in which MS has significant business operations, such as New York. The IRS is scheduled to conclude the fieldwork portion of their examination in 2009. MS regularly assesses the likelihood of additional assessments in each of the taxing jurisdictions resulting from these and subsequent years' examinations. MS has established unrecognized tax benefits that MS believes are adequate in relation to the potential for additional assessments. Once established, MS adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change. The Company believes that the resolution of tax matters will not have a material effect on the statement of financial condition of the Company.

The following are the major tax jurisdictions in which MS and its affiliates operate and the earliest tax year subject to examination:

Jurisdiction	Tax Year
United States	1999
New York State and City	2002

Note 10 – Regulatory Requirements

The Company is a registered broker-dealer, and accordingly, is subject to the net capital rules of the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA"). Under these rules the Company is required to maintain minimum Net Capital, as defined under SEC Rule 15c3-1, equal to the greater of $250 or 2% of aggregate debit balances arising from customer transactions, as defined. FINRA may require a member firm to reduce its business if net capital is less than 4% of such aggregate debit items and may prohibit a firm from expanding its business if net capital is less than 5% of such aggregate debit items. At June 30, 2009, the Company's Net Capital was $97,865 which was $97,312 in excess of its required minimum net capital.

Advances to the Parent and its affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the Net Capital rule of the SEC.

Note 11 – Subsequent Events

The Company has updated its subsequent events disclosure through September 3, 2009, the filing date of this report. No further disclosures are necessary.

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