



## **Morgan Keegan and Morgan Asset Management agree to \$200 Million Settlement with State and Federal Regulators**

(June 22, 2011) Joseph P. Borg, Director of the Alabama Securities Commission; Charles A. Vice, Commissioner of Kentucky Department of Financial Institutions; Delbert Hosemann, Mississippi Secretary of State; Alan Wilson, Attorney General & Securities Commissioner, South Carolina; and Julie Mix McPeak, Commissioner of the Department of Commerce and Insurance, Tennessee; along with Robert Khuzami, Enforcement Director, U.S. Securities and Exchange Commission (SEC), Washington D.C., and William P. Hicks, Associate Regional Director, SEC Atlanta Regional Office; and Brad Bennett, Executive Vice President and Enforcement Director for the Financial Industry Regulatory Authority (FINRA), announced today a settlement and entry of consent orders and administrative orders with Morgan Keegan & Company (MKC) and Morgan Asset Management (MAM). These actions are a direct result of intensive multi-state, federal, and self-regulatory organization (SRO) investigations. The States' task force was led by Alabama, Kentucky, Mississippi, South Carolina and Tennessee in cooperation with state securities regulators from Arkansas, Florida, Georgia, Illinois, Louisiana, Missouri, North Carolina, and Texas.

The investigation centered around seven proprietary mutual funds sold by Morgan Keegan broker dealers to over 30,000 account holders. Those seven mutual funds lost approximately \$1.5 billion from March 31, 2007 to March 31, 2008. The states' joint administrative actions against Morgan Keegan, Morgan Asset Management and certain employees, alleged that the firms:

- Made material omissions and misrepresentations in marketing materials;
- Made material omissions and misrepresentations in regulatory filings;
- Withheld information from and misrepresented information concerning the funds to the Morgan Keegan sales force;
- Provided preferential treatment to certain customers;
- Failed to make suitable recommendations concerning purchases and concentration of the funds in customer accounts;
- Failed to adequately supervise their agents and employees; and,
- Obstructed the due diligence process.

The states' consent orders will be posted on the following websites:

Alabama, <http://asc.alabama.gov/Orders/2010/CO-2010-0016.pdf>;

Kentucky, <http://www.kfi.ky.gov/public/morgankeegan.htm>;

Mississippi, <http://www.sos.ms.gov>;

South Carolina, <http://www.scag.gov/scsecurities/notices-and-orders>; and

Tennessee, <http://tn.gov/commerce/securities/consentOrders.shtml/>.

Highlights/excerpts of the consent orders (please refer to copies of the orders for complete details):

1. MKC and MAM are ordered to pay a total of \$200 million. Of this \$100 million will go to establish an "SEC Fair Fund" and \$100 million will go to establish a "States' Fund" both for the benefit of investors. All costs, expenses, and charges associated with the Fair Fund and the States' Fund management and distributions shall be paid by MKC and MAM in addition to the funds established for investors.

2. MKC and MAM are prohibited from creating, offering or selling any proprietary funds for a period of two years.
3. In addition to regular audits and examinations State regulatory authorities may conduct additional audits or examinations of the offices and branch offices of MKC and MAM; and, for the next two years, appropriate costs associated with these special audits or examinations will be paid by MKC/MAM.
4. If MKC/MAM forms and sells any proprietary investment products before January 1, 2016, for three years the firms are required to retain an independent auditor, at their expense. This auditor must be acceptable to a representative selected by state securities regulators from Alabama, Kentucky, Mississippi, South Carolina and Tennessee, and the SEC.
5. For the next three years, MKC and MAM will provide special mandatory training to all firm registered agents and investment adviser representatives which is required to be comprehensive for each of the products and offerings sold or recommended to clients. Further, MKC and MAM must also conduct training on suitability and risks of investments. MKC and MAM shall develop and implement course evaluations in order to assess the effectiveness of the training.
6. MKC and MAM are prohibited from having one person simultaneously hold the positions of general counsel and chief compliance officer.
7. State securities regulators will continue the cases and charges against Brian B. Sullivan, Gary S. Stringer and Michele F. Wood, who were named in the States' proceedings and who have not entered into the consent orders.
8. MKC and MAM are required to fully cooperate in current and future administrative proceedings against Sullivan, Stringer or Wood.
9. James Kelsoe, the fund manager named in the states' and SEC actions, settled charges with the States and was ordered to pay a total of \$500,000.00 (\$250,000.00 to States and \$250,000.00 to SEC). Furthermore, Kelsoe agreed to the revocation of all of his existing registrations and/or licenses and to an order of permanent bar from involvement in the securities industry. Kelsoe cannot serve as an officer, director, or manager of, or issuer of interests in, a mutual fund, money market fund, pooled-investments or similar securities and investment vehicles which are publicly offered or sold.

Director Joseph Borg of the Alabama Securities Commission said, "Here is a prime example where State Securities Regulators worked together, and in cooperation with the SEC and FINRA to leverage scarce resources to resolve a serious matter that financially affected thousands of main street investors. This cooperation among securities regulators will help provide some measure of restitution to the investors who lost money with Morgan Keegan, and sends a strong message that state, federal and SRO regulators are determined to police the markets for all investors."

Kentucky Department of Financial Institutions Commissioner Charles Vice said, "Protecting investors is a primary goal of the Securities Division of DFI. Through this collaborative effort among state and federal regulators we were able to recoup a portion of investor losses. Today's action demonstrates Kentucky's willingness and ability to take action when it finds that its citizens have been harmed."

"We intend to hold companies and individuals accountable for not adequately disclosing risks associated with their investments and presenting marketing materials to investors that fail to accurately describe what they are buying," says Mississippi Secretary of State Delbert Hosemann. "This settlement will hopefully bring partial

relief to investors who have experienced financial hardship due to these actions. Investors need to feel secure when they invest their hard-earned dollars that they are given accurate information. We hope this action sends a strong message these types of actions will not be tolerated in any state.”

Alan Wilson the Attorney General & Securities Commissioner of South Carolina said, "We are committed to protecting South Carolinians and others who have worked hard and saved for the future from those who would jeopardize that future. When investments are made, they should be based on reasonable facts and assumptions of risk, not on omissions and misrepresentations."

“We value our collaboration with other state and federal regulators,” said Tennessee Department of Commerce and Insurance Commissioner Julie Mix McPeak. “Safeguarding the integrity of our state market is crucial to us, and we work for the safety of investors and the companies that operate within our marketplace.”

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