
Morgan Keegan

Statement in Response to Regulatory Actions Related to Auction Rate Securities July 23, 2009

Morgan Keegan was surprised and disappointed by the actions taken earlier this week by the Securities & Exchange Commission and the Alabama Securities Commission with regards to our involvement with the Auction Rate Securities (ARS) market. From the very beginnings of this problem, the proximate cause of which was the collapse of the bond insurers, Morgan Keegan has cooperated fully with the SEC and state commission and worked vigorously to provide liquidity to our clients. Morgan Keegan instituted a voluntary program to repurchase ARS bonds from our retail clients in advance of any regulatory guidance. Those voluntary efforts, in conjunction with refinancing activities, have successfully reduced overall ARS holdings from \$2.2 billion in February 2008 to \$365 million at the end of last month. Below we address in more detail our position on some of the key issues raised in recent media coverage on this subject, including:

- We have reduced our clients' exposure to ARS by 84% through repurchases and refinancings.
- We instituted a voluntarily repurchase program to provide liquidity to our retail clients.
- Morgan Keegan statements and trade confirmations did not represent auction rate securities as cash or money market equivalents.
- Through the repurchase process, investors are made whole, receiving the original investment (par value) and earned interest.
- We have committed to repurchasing every illiquid ARS bond underwritten by our firm held by individual investors.
- We plan to repurchase substantially all of the illiquid ARS bonds underwritten by other firms that were sold by Morgan Keegan to our retail clients.

Allegations related to the failure of liquidity in the ARS market: It has been claimed, with the benefit of hindsight, that Morgan Keegan and other broker dealers should have foreseen the systemic failure of the ARS market. The auction rate market had provided consistent liquidity and operated without disruption for over two decades. But in early 2008, the entire market suffered a catastrophic collapse as an outgrowth of the overall economic meltdown. The consequent failure of major Wall Street firms, the need for the government to recapitalize the banking system, and the insolvency of FNMA and FHLMC (among others) over the past eighteen months were not foreseen anywhere.

There was, and is, no magic switch that provides liquidity in the event that public markets cease to function. Regardless of when the ARS markets ceased to clear, the only means of re-liquefying ARS bonds is to patiently work with the issuers to refund and redeem those bonds. This is exactly what Morgan Keegan has been doing, successfully, for over a year. Our investment bankers have worked tirelessly with our client issuers to refund some 62 auction rate debt issues totaling more than \$874 million in aggregate par value.

Morgan Keegan

Morgan Keegan has proactively worked to restore liquidity for clients: In their press release, the SEC states that they are “firmly committed to restoring liquidity to Morgan Keegan customers who purchased ARS.” We couldn’t agree more, which is why we took affirmative steps to voluntarily initiate a repurchase program for retail investors. The first phase of this program, focused on repurchasing the auction rate debt underwritten by Morgan Keegan, began in February 2009, and is expected to be completed early in the fourth quarter of 2009. This effort has been welcomed by our retail clients with 85%, or 485 individual investors, having participated in the tender offers to repurchase the outstanding securities thus far. It is important to note that in the repurchase process, investors are made whole, receiving the original investment (par value) and earned interest.

In the fourth quarter, we intend to implement the second phase of our repurchase program which will address auction rate securities underwritten by other firms and distributed by Morgan Keegan. There are approximately 550 retail clients holding \$132 million in these so-called “orphan securities” underwritten by other firms but sold by Morgan Keegan to our clients. We have committed substantial capital to operate this program and fully intend to continue to repurchase the illiquid ARS while working to resolve our differences with the regulators.

Allegations related to sales practices: Unlike some other firms, Morgan Keegan has always classified ARS, accurately, as Municipal Bonds or Mutual Funds on our trade confirmations and account statements. There was never a time that these securities were reported on these account documents as money market equivalents. There were no inducements or enhancements for financial advisors to sell ARS, which traded at par with standard commissions. It should also be noted that Morgan Keegan, in common with all securities firms worldwide, cannot and does not guarantee the liquidity of any security, whether it be Treasury Bills or ARS.

To the suggestion that Morgan Keegan continued to sell auction rate securities after the market began to deteriorate, we respond by pointing out that any auction rate bonds sold in the days, weeks and months after the market collapse were available to investors to purchase only because another investor was able to sell their securities. These securities were functioning normally, passing between buyer and seller, because there were no constraints on how high the interest rates could go in an open market where there were more sellers than buyers. Some investors who recognized the inherent value in these securities sought them out for these higher rates. By no means was Morgan Keegan actively marketing impaired securities.

Throughout the fall of 2007 and early part of 2008, Morgan Keegan remained committed to its role as an auction rate market participant and, in doing so, continued to provide liquidity in auctions up to and, in fact, beyond the overall market collapse in mid-February 2008. Our actions resulted in more than \$150 million of ARS bonds being purchased into Morgan Keegan’s inventory from clients who would not have otherwise been able to sell their bonds to any other broker dealer.

Morgan Keegan was a minor factor in the ARS market: In what was a \$330 billion market, our clients owned \$2.2 billion of ARS, or approximately 0.7% of the market at its peak. Of the \$2.2 billion total, approximately half of this amount was underwritten by our firm, the remainder having been underwritten by other much larger firms.

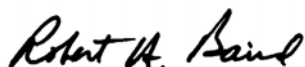
Morgan Keegan

We do not minimize the hardships our clients have experienced since the ARS market became illiquid during February 2008, but published comments quoting an SEC spokesman as saying that “thousands of Morgan Keegan clients had been misled” are simply wrong. In fact, a total of 1,541 Morgan Keegan client accounts held ARS securities when the problems began and, as a result of our efforts, that total is below 940 client accounts today. Please note as well that each of those clients continues to receive scheduled principal or interest payments.

The Issue of Jefferson County, Alabama, Sewer Bonds: Our fundamental disagreement with the regulators relates to their demand that we repurchase certain bonds issued by Jefferson County, Alabama, and underwritten by JP Morgan. These bonds are the subject of criminal indictments on charges of fraud and bribery involving, among others, the underwriter and several Jefferson County public officials. They are also the subject of a Wells Notice by the SEC to JP Morgan as underwriter. We believe the issues related to the failure of these securities go well beyond the scope of the liquidity problems plaguing the auction rate market. Consequently, we have and continue to argue that the responsibility for reparations for these securities belongs to the underwriter and others involved. Morgan Keegan clients hold approximately \$55 million in these securities.

Early settlements with major Wall Street firms were flawed: In our opinion, the settlements reached early on allowed many of the major firms in the ARS market to walk away largely unscathed. By not holding the large Wall Street firms responsible for the ARS securities that they underwrote, the buck has been passed to smaller firms that distributed those securities in good faith.

Morgan Keegan has voluntarily taken responsibility for the ARS we underwrote which are held by retail investors. We look to other issuers to step forward and do the same with their issues. We have allocated our capital to restoring liquidity for our retail clients. To date, we have reduced our clients’ exposure to illiquid ARS from \$2.2 billion to \$365 million over the last year. Our investment bankers have worked tirelessly with our issuer clients to successfully refund some 73% of auction rate debt issues we underwrote. Additionally, through our repurchase program, we are committed to repurchasing substantially all of the currently illiquid ARS we sold to our retail clients, with the exception of the noted Jefferson County issues underwritten by JP Morgan. As we continue to work through these difficult issues with our regulators, we plan to continue our voluntary repurchase program to provide liquidity for our valued retail clients who remain our top priority.



Robert A. Baird
President, Fixed Income Capital Markets