

**Morgan Keegan**

**CONSOLIDATED STATEMENT  
OF FINANCIAL CONDITION  
(UNAUDITED)**

**June 30, 2009**

**Morgan Keegan & Company, Inc. and Subsidiary**  
**Consolidated Statement of Financial Condition (Unaudited)**  
**June 30, 2009**

<b>Assets</b>	<b>June 30, 2009</b>
Cash.....	\$ 42,551,205
Deposits with clearing organizations and others.....	21,154,308
Receivables from brokers, dealers and clearing organizations.....	195,974,319
Receivables from customers.....	519,332,224
Securities purchased under agreements to resell.....	415,207,861
Securities owned, at market.....	854,894,329
Memberships in exchanges, at cost (estimated market value \$1,816,000).....	90,129
Furniture, equipment and leasehold improvements, less allowances for depreciation and amortization of \$22,500,428.....	26,478,077
Due from affiliate.....	92,619,682
Other assets.....	420,741,971
Total assets.....	<u>\$ 2,589,044,105</u>

**Liabilities And Stockholder's Equity**

Liabilities:	
Short-term borrowings.....	\$ 142,000,000
Due to affiliate.....	69,016,284
Payables to brokers, dealers and clearing organizations.....	81,907,271
Payables to customers.....	339,477,914
Customer drafts payable.....	29,724,360
Securities sold under agreements to repurchase.....	476,928,845
Securities sold, not yet purchased, at market.....	312,922,999
Other liabilities.....	227,783,455
Total liabilities.....	<u>1,679,761,128</u>
Stockholder's equity:	
Common stock, par value \$.625 per share: Authorized shares 100,000,000; 29,404,235 issued and outstanding shares.....	\$ 18,377,647
Paid-in capital.....	58,213,759
Retained earnings.....	832,691,571
Total stockholder's equity.....	<u>909,282,977</u>
Total liabilities and stockholder's equity.....	<u>\$ 2,589,044,105</u>

*See accompanying notes.*

# Notes To Consolidated Statement Of Financial Condition (Unaudited) Morgan Keegan & Company, Inc. and Subsidiary June 30, 2009

## NOTE 1 – DESCRIPTION OF THE COMPANY

Morgan Keegan & Company, Inc. and Subsidiary (the Company, or Morgan Keegan) is a registered securities broker/dealer under the Securities Exchange Act of 1934 and a wholly-owned subsidiary of Regions Financial Corporation (the Parent, or Regions). The Company is in one principal line of business of providing investment services primarily in the southern United States. These services include the underwriting, distribution, trading, and brokerage of equity and debt securities, as well as the sale of mutual funds and other investment products. In addition, the Company provides investment management for retail and institutional clients and trust services for retail clients. The Company is a member of Financial Industry Regulatory Authority and other principal exchanges.

The Consolidated Statement of Financial Condition includes the accounts of the Company and its subsidiary after elimination of all material intercompany balances and transactions.

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

**Cash and Cash Equivalents:** The Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, which are not held for sale in the ordinary course of business.

**Financial Assets and Liabilities:** Substantially all of the Company's financial assets and liabilities are carried at fair value or at amounts, which because of the short-term nature of the financial instruments, approximate current fair value. See Note 13 for discussion of determining fair value.

**Securities Transactions:** Proprietary securities transactions are presented on a trade-date basis. Customers' securities transactions are recorded on a settlement date basis.

**Securities:** Securities owned and securities sold, not yet purchased are carried at fair value.

**Securities-Lending Activities:** Securities-borrowed and securities-loaned transactions are generally reported as collateralized financings except where letters of credit or other securities are used as collateral. Securities-borrowed transactions require the Company to deposit cash, letters of credit, or other collateral with the lender. Securities-loaned transactions require the borrower to deposit cash or other collateral with the Company. Generally, this amount is in excess of the market value of the securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Interest is accrued on securities-borrowed and securities-loaned transactions and is included in other assets or other liabilities on the Consolidated Statement of Financial Condition.

**Furniture, Equipment and Leasehold Improvements:** Furniture, equipment and leasehold improvements are carried at cost.

**Reverse Repurchase Agreements and Repurchase Agreements:** Securities purchased under agreements to resell (Reverse Repurchase Agreements) and securities sold under agreements to repurchase (Repurchase Agreements) generally are collateralized by U.S. Government and agency obligations and are carried at the amounts at which the securities will be subsequently resold or repurchased. Interest is accrued on repurchase or resale contract amounts and is included in other assets or other liabilities on the Consolidated Statement of Financial Condition.

**Derivatives:** The Company records its derivatives activities at fair value in the Consolidated Statement of Financial Condition.

**Income Taxes:** The Company utilizes the liability method of accounting for income taxes whereby deferred tax assets and liabilities are recorded by applying federal and state tax to cumulative temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

**Receivables from Customers:** Receivables from customers include amounts arising from uncompleted transactions and margin balances. Securities, which are owned by customers but held as collateral for receivables from customers, are not included in the Consolidated Statement of Financial Condition.

**Receivables from and Payables to Brokers, Dealers, and Clearing Organizations:** Amounts receivable from and payable to brokers, dealers, and clearing organizations include amounts due on failed securities transactions, as well as securities loaned or borrowed.

**Memberships in Exchanges:** The Company maintains memberships on various domestic exchanges. Exchange memberships owned by the Company are carried at cost. Assessments of the potential impairment of carrying value, in accordance with FASB Statement No. 144, Impairment and Disposal of Long Lived Assets, are made periodically. There were no exchange membership impairments in 2008.

In March 2006, subsequent to its merger with Archipelago Holdings, Inc., the New York Stock Exchange (NYSE) purchased from Morgan Keegan the 5 seats the Company owned in exchange for 393,005 shares of its newly listed Common Stock (trading under ticker symbol "NYX"), and approximately \$2 million in cash. These shares were restricted from sale until certain time period lapsed. In 2006, Morgan Keegan recorded a gain on the exchange of approximately \$13 million. Through December 31, 2007, 262,005 shares had been sold and the remaining 131,000 shares were sold in 2008.

**Recently Adopted Application of Accounting Standards:** In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), which provides guidance for using fair value to measure assets and liabilities, but does not expand the use of fair value in any circumstance. FAS 157 also required expanded disclosures about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on an entity's financial statements. This statement applies whenever other standards require or permit assets and liabilities to be measured at fair value. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. Morgan Keegan adopted FAS 157 on January 1, 2008, and there was no material effect of adoption on the Consolidated Statement of Financial Condition.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 allows entities to voluntarily choose, at specified election dates, to measure financial assets and financial liabilities (as well as certain nonfinancial instruments that are similar to financial instruments) at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, FAS 159 specifies that all subsequent changes in fair value for that instrument be reported in earnings.

FAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, and earlier adoption is permitted. Morgan Keegan adopted FAS 159 on January 1, 2008, and there was no material effect of adoption on the Consolidated Statement of Financial Condition.

**Use of Estimates:** The preparation of the Consolidated Statement of Financial Condition in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Statement of Financial Condition and accompanying notes. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

### NOTE 3 – SHORT TERM BORROWINGS

At June 30, 2009, the Company had an unsecured line of credit of \$50,000,000 and a secured line of credit of \$175,000,000 with Regions Bank, an affiliate, with a \$50,000,000 outstanding balance at June 30, 2009. There were no compensating balances associated with this line of credit, and there is no expiration. This line bears interest at the federal funds rate plus 50 basis points.

At June 30, 2009, the Company had total lines of credit with other financial institutions of \$585,000,000, with expirations prior to December 31, 2009, under which \$65,000,000 could be borrowed on an unsecured basis. There were no compensating balances associated with these lines of credit. There was a total of \$142,000,000 outstanding against these lines of credit at June 30, 2009. Secured amounts are collateralized by securities held in safekeeping at the respective financial institution. The lines bear interest at rates tied to the federal funds rate.

### NOTE 4 – LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

There were no liabilities subordinated to claims of general creditors at June 30, 2009.

### NOTE 5 – SECURITIES & DEPOSITS WITH CLEARING ORGANIZATIONS AND OTHERS

Securities owned for trading purposes consist of the following, at fair value, as of June 30, 2009:

U.S. Government obligations	\$ 538,977,995
State and municipal obligations	234,479,137
Corporate bonds	70,590,168
Bankers' acceptances	9,470,944
Stocks	1,376,085
	<u>\$ 854,894,329</u>

State and municipal obligations include an issue with a par value of \$12,700,000 which has been written down to a fair value of \$4,699,000 at June 30, 2009 as determined by management of the Company, which is the amount expected to be recovered from the bonds.

Deposits with clearing organizations and others consist of cash of \$9,201,049 and U.S. Government obligations with a total fair value of \$11,953,259 at June 30, 2009.

Securities sold, not yet purchased consist of the following, at fair value, as of June 30, 2009:

U.S. Government obligations	\$ 293,458,185
Corporate bonds	8,246,806
Stocks	1,136,789
State and municipal obligations	1,059,675
Bankers' acceptances	9,021,544
	<u>\$ 312,922,999</u>

Securities sold, not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and thereby create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk, as the Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount reflected in the Consolidated Statement of Financial Condition.

### NOTE 6 – RECEIVABLES FROM AND PAYABLES TO BROKERS, DEALERS AND CLEARING ORGANIZATIONS

Accounts with brokers, dealers and clearing organizations consist of the following at June 30, 2009:

<b>Receivable:</b>	
Securities failed to deliver	\$ 177,421,367
Due from clearing organizations	2,761,012
Securities borrowed	15,766,492
Other	25,448
	<u>\$ 195,974,319</u>
<b>Payable:</b>	
Securities failed to receive	\$ 74,649,871
Securities loaned	100,791
Due to clearing organizations	7,156,609
	<u>\$ 81,907,271</u>

### NOTE 7 – COMMITMENTS AND CONTINGENCIES

At June 30, 2009, the Company had pledged approximately \$36,252,335 in customer-owned securities to cover customer margin requirements with a clearing organization.

Morgan Keegan & Company, Inc. (MK & Co.) and its affiliates are subject to litigation, including the litigation discussed below, and claims arising in the ordinary course of business. Although it is not possible to predict the ultimate resolution or financial liability with respect to these litigation contingencies, management is currently of the opinion that the outcome of the pending or threatened litigation would not have a material effect on MK & Co.'s business or, consolidated financial position, except to the extent indicated in the discussion below.

In late 2007 and into 2008, MK & Co. and its affiliates have been named as defendants in class actions filed in Federal and state courts on behalf of investors who purchased shares of certain affiliated mutual funds. The funds were formerly managed by Morgan Asset Management, Inc. The complaints contain various allegations, including claims that the Funds and the defendants misrepresented or failed to disclose material facts relating to the activities of the Funds. No classes have been certified and at this stage of the lawsuits, MK & Co. cannot determine the probability of a material adverse result or reasonably estimate a range of potential exposures, if any. Certain of the shareholders in these funds have filed arbitration proceedings and individual civil claims in lieu of participating in the class actions. The SEC, FINRA and various states have undertaken separate investigations of MK & Co. and its affiliates with respect to these Funds. In July 2009, the SEC issued Wells notices to MK & Co., Morgan Asset Management and three employees indicating the Staff intended to recommend the Commission bring enforcement actions for possible violations of the federal securities laws. In July 2009, MK & Co. received a Wells notice from the enforcement staff of FINRA, indicating that it intended to recommend the bringing of disciplinary action against MK & Co. for violation of various NASD rules relating to sales of the Funds in 2006 and 2007.

In March 2009, MK & Co. received a Wells notice from the SEC related to auction rate securities ("ARS"). The notice indicated the Staff intended to recommend that the SEC take civil action against MK & Co. A Wells submission was made on April 19, 2009 in which MK & Co. set forth the reasons why charges should not be asserted. On July 21, 2009 the SEC filed suit in Federal Court in Atlanta against MK & Co. alleging violations of the federal securities laws in connection with ARS that MK & Co. underwrote, marketed and sold. The SEC seeks injunctive relief against violations of the antifraud provisions of the federal securities laws, as well as disgorgement, financial penalties and other equitable relief for customers, including repurchase by MK & Co. of all ARS it sold prior to March 20, 2008. Simultaneously, the Alabama Securities Commission issued an Order to Show Cause regarding ARS that were the subject of the SEC complaint. The Order provides an opportunity for MK & Co. to respond and set forth reason why its registration as a broker dealer in Alabama should not be suspended or revoked and why it should not be subjected to further sanctions including disgorgement, repurchasing all ARS sold to Alabama residents and payment of costs and penalties. Beginning in February 2009, MK & Co. commenced a voluntary program to repurchase ARS that it underwrote and sold to customers of the Firm. MK & Co. intends to extend that program to include ARS that were sold by MK & Co. to its customers that it did not underwrite, subject to certain qualifications. As of June 30, 2009, customers of MK & Co. owned approximately \$343 million of ARS and MK & Co. held approximately \$123 million of ARS on its balance sheet.

In 2005, MK & Co. and a research analyst were named as defendants in the lawsuit brought by an issuer of equity securities alleging that the Firm and the analyst were part of a conspiracy to drive down the value of the issuer's equity securities. The claim seeks damages totaling \$5 billion. The matter is in the early stages of discovery. At this point MK & Co. cannot determine the probability of a material adverse result or reasonably estimate a range of potential exposures, if any.

The Company is involved in litigation arising in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate resolution of such litigation will not have a material adverse effect on the Company's Consolidated Statement of Financial Condition.

## NOTE 8 – INCOME TAXES

The Company is included in the consolidated federal income tax return of the Parent. The Parent allocates federal income taxes on a separate return basis. The Company, generally, files separate state and local income tax returns but, where applicable, is included in a combined state income tax return with the Parent and certain other subsidiaries of the Parent. If included in a combined return, state and local taxes are calculated as if the Company filed a separate state income tax return.

Significant components of the Company's deferred tax assets and liabilities as of June 30, 2009 are as follows:

### Deferred tax assets

Deferred compensation	\$ 38,535,615
Non-deductible reserves	24,167,553
Insurance and benefits	2,920,215
Other	2,118,628
Deferred tax asset	<u>67,742,011</u>

### Deferred tax liabilities

Depreciation and related items	2,730,229
Other	1,125,897
Deferred tax liability	<u>3,856,126</u>
Net deferred tax assets	<u>\$ 63,885,885</u>

Net deferred tax assets are included in other assets on the Consolidated Statement of Financial Condition. Management has evaluated the need for a valuation allowance for all or a portion of the deferred tax assets and concluded that no valuation allowance was necessary.

### Uncertain Tax Positions

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), which requires that only benefits from tax positions that are more-likely-than-not of being sustained upon examination should be recognized in the financial statements. There was no cumulative effect adjustment to retained earnings in connection with the adoption of FIN 48 on January 1, 2007. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<b>2009</b>
Balance at the beginning of year	<u>\$ 1,800,000</u>
Additions	—
Subtractions	—
Balance at June 30, 2009	<u>\$ 1,800,000</u>

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$1.8 million. During the year ended December 31, 2008, \$12.7 million of the 2007 reserve was released due to the resolution with the IRS of the Consolidated Company's federal uncertain tax positions for tax years 1999-2006. The remaining balance of \$1.8 million relates to several expected tax exposures arising from issues related to operations of the Company for open tax years.

## NOTE 9 – REVERSE PURCHASE AGREEMENTS AND REPURCHASE AGREEMENTS

The Company enters into repurchase agreements with the obligation to repurchase the securities sold reflected as a liability in the Consolidated Statement of Financial Condition. These agreements carry risks of changes in fair value similar to securities held in the Company's inventory. The Company also enters into reverse repurchase agreements. The amounts advanced under these agreements represent short-term loans and are reflected as a receivable in the Consolidated Statement of Financial Condition. Securities purchased under agreements to resell are held in safekeeping in the Company's name. Should the market value of the underlying securities decrease below the amount recorded, the counterparty is required to place an equivalent amount of additional securities in safekeeping in the name of the Company.

The Company minimizes credit risk associated with these activities by monitoring credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited or returned when deemed appropriate. Counterparties are principally primary dealers of U.S. Government securities and financial institutions.

## NOTE 10 – BUSINESS COMBINATIONS AND INTANGIBLE ASSETS

In December 2008, Morgan Keegan purchased Revolution Partners, LLC, a Boston, Massachusetts-based investment banking boutique specializing in the technology industry. In connection with this acquisition, the Company recorded \$6.6 million of intangibles related to customer lists, which will be amortized over 10 years, and \$5.5 million related to employment contracts, which will be amortized of the terms of the contracts, ranging from 3 to 5 years. Morgan Keegan also recorded \$7.6 million in goodwill, which will be evaluated at least annually for impairment. These assets are included in other assets on the Consolidated Statement of Financial Condition.

Goodwill recognized in business combinations made by the Company totals \$35 million and is included in other assets on the Consolidated Statement of Financial Condition. Assessments of the potential impairment of carrying value, in accordance with FASB Statement No. 144, Impairment and Disposal of Long Lived Assets, are made periodically.

Other identifiable intangible assets consisting of customer lists and employment contracts totaling \$21.7 million are included in other assets on the Consolidated Statement of Financial Condition. These assets are being amortized over their estimated useful lives.

#### NOTE 11 – REGULATORY REQUIREMENTS

As a registered broker/dealer and member of the New York Stock Exchange, Inc., the Company is subject to the Securities and Exchange Commission (SEC) uniform net capital rule (Rule 15c3-1). The Company computes its net capital requirement under the alternate method of the rule, which prohibits a broker/dealer from engaging in any securities transactions when its net capital, as defined, is less than 2% of its aggregate debit balances arising from customer transactions. The SEC may also require a member to reduce its business and restrict withdrawal of capital if its net capital is less than 4% of aggregate debit balances, and may prohibit a member firm from expanding its business and declaiming cash dividends if its net capital is less than 5% of aggregate debit balances.

At June 30, 2009, the Company had net capital of \$340,428,098, which was 62% of its aggregate debit balances and \$327,190,154 in excess of the 2% net capital requirement.

#### NOTE 12 – RELATED PARTY TRANSACTIONS

The Company loaned approximately \$106 million to an affiliate, Morgan Properties, Inc., for liquidity purposes in 2007. The balance of the loan at June 30, 2009 was approximately \$93 million. No interest rate is being charged to the affiliate.

Amount due to affiliates at June 30, 2009, represents approximately \$73 million payable to the Parent and a receivable of \$4 million from another subsidiary of the Parent. Both balances arose in the normal course of business.

At June 30, 2009, the Company had approximately \$31.6 million on deposit with the Parent, which is included in Cash on the Consolidated Statement of Financial Condition.

#### NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), as of January 1, 2008. FAS 157 establishes a framework for using fair value to measure assets and liabilities and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) as opposed to the price that would be paid to acquire the asset or received to assume the liability (an entry price). FAS 157 requires disclosures that stratify balance sheet amounts measured at fair value based on inputs the Company uses to derive fair value measurements. These strata include:

- Level 1:** where the valuation is based on quoted market prices for identical assets or liabilities traded in active markets (which include exchanges and over-the-counter markets with sufficient volume);
- Level 2:** where the valuation is based on quoted market prices for similar instruments traded in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market; and
- Level 3:** where the valuation is generated from model-based techniques that use significant assumptions not observable in the market, but observable based on Company-specific data. These unobservable assumptions reflect the Company's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques typically include option pricing models, discounted cash flow models and similar techniques, but may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability.

#### Items Measured at Fair Value on a Recurring Basis

Securities owned and securities sold, not yet purchased are recorded at fair value on a recurring basis. These items primarily consist of U.S. Treasuries, mortgage-backed and asset-backed securities, municipal bonds and equity securities. The Company uses quoted market prices of identical assets on active exchanges, or Level 1 measurements. Where such quoted market prices are not available, the Company typically employs quoted market prices of similar instruments (including matrix pricing) and/or discounted cash flows to estimate a value of these securities, or Level 2 measurements. Level 2 discounted cash flow analyses are typically based on market interest rates, prepayment speeds and/or option adjusted spreads. Level 3 measurements include discounted cash flow analyses based on assumptions that are not readily observable in the market place. Such assumptions include projections of future cash flows, including loss assumptions, and discount rates.

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2009:

	Level 1	Level 2	Level 3	Fair Value
	<i>(In thousands)</i>			
<b>Assets</b>				
Securities owned, proprietary	\$ 800	\$ 576,962	\$ 277,133	\$ 854,894
Securities owned, other	127,265	—	—	127,265
<b>Liabilities</b>				
Securities sold, not yet purchased	\$ 1,137	\$ 168,397	\$ 143,389	\$ 312,923

Assets and liabilities in all levels could result in volatile and material price fluctuations. Realized and unrealized gains and losses on Level 3 assets represent only a portion of the risk to market fluctuations in the Company's balance sheets.

The following table illustrates a rollforward for all assets and (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2009:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3 measurements only)	
	Securities Owned	Securities sold, not yet purchased
	<i>(In thousands)</i>	
Beginning balance, January 1, 2009	\$ 377,472	\$ (118,124)
Total gains (losses) realized and unrealized:		
Included in earnings	5,837	130,189
Purchases and issuances	1,701,806	61,082,295
Settlements	(1,776,617)	(61,465,930)
Transfers in and/or out of Level 3	(31,365)	228,181
Ending balance, June 30, 2009	<u>\$ 277,133</u>	<u>\$ (143,389)</u>

## **NOTE 14 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CREDIT RISK**

Financial instruments recorded at fair value on the Company's Consolidated Statement of Financial Condition include securities owned and sold, not yet purchased. Other financial instruments are recorded by the Company at contract amounts and include receivables from and payables to brokers, dealers, and clearing organizations, securities purchased under agreements to resell, securities sold under agreements to repurchase, and receivables from and payables to affiliates and customers. Financial instruments carried at contract amounts which approximate fair value, either have short-term maturities (one year or less), are repriced frequently, or bear market interest rates and, accordingly, are carried at amounts approximating fair value.

The Company's activities involve the execution, settlement and financing of various securities transactions, including customer transactions. Customer activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to the customer, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's account. Such transactions may expose the Company to off-balance sheet-risk in the event that margin requirements are not sufficient to fully cover losses that customers incur.

The Company, as a part of its normal brokerage activities, assumes short positions on securities. The establishment of short positions exposes the Company to off-balance sheet risk in the event prices increase, as the Company may be obligated to cover such positions at a loss. The Company manages its exposure to these instruments by entering into offsetting or other positions in a variety of financial instruments.

As a securities broker/dealer, a substantial portion of the Company's transactions is collateralized. The Company's exposure to credit risk associated with nonperformance in fulfilling contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets which may impair the customer's or contra party's ability to satisfy their obligations to the Company. Where considered necessary, the Company requires a deposit of additional collateral or a reduction of securities positions.

If another party to the transaction fails to perform as agreed (such as failure to deliver a security or failure to pay for a security), the Company may incur a loss if the market value of the security is different from the contract amount of the transaction.

The Company maintains its cash deposits in various financial institutions, several of which include amounts in excess of that insured by the Federal Deposit Insurance Corporation.

In the normal course of business, the Company enters into underwriting and forward and future commitments. At June 30, 2009, there were no future contracts to purchase and the contract amount of future contracts to sell U.S. Government and municipal securities was approximately \$28 million. The Company typically settles its position by entering into equal but opposite contracts and, as such, the contract amounts do not necessarily represent future cash requirements. Settlement of the transactions relating to such commitments are not expected to have a material effect on the Company's financial position. Transactions involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular instrument. The Company's exposure to market risk is determined by a number of factors, including the size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility.

Additionally, in the normal course of business, the Company enters into transactions for delayed delivery, to-be-announced (TBA) securities which are recorded on the Consolidated Statement of Financial Condition at fair value. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from unfavorable changes in interest rates or the market values of the securities underlying the instruments. The credit risk associated with these contracts is typically limited to the cost of replacing all contracts on which the Company has recorded an unrealized gain. For exchange-traded contracts, the clearing organization acts as the counterparty to specific transactions and, therefore, bears the risk of delivery to and from counterparties.

While the Company regularly participates in the trading of some derivative securities for its customers, this trading is not a significant portion of the Company's business.

# **Morgan Keegan**

**Morgan Keegan & Company, Inc.**

**Member FINRA, SIPC**

Not FDIC Insured | May Lose Value | No Bank Guarantee  
Not a Deposit | Not Insured by Any Government Agency

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800.366.7426