

**Morgan Keegan**

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

**June 30, 2011**

**Morgan Keegan & Company, Inc. and Subsidiary**  
**Consolidated Statement of Financial Condition**  
**(Unaudited)**  
**June 30, 2011**

**Assets**

Cash.....	
Securities segregated for regulatory purposes, at fair value.....	
Deposits with clearing organizations and others .....	
Receivables from brokers, dealers and clearing organizations.....	
Receivables from customers .....	
Securities purchased under agreements to resell .....	
Securities owned, at fair value .....	
Furniture, equipment and leasehold improvements, less allowances for depreciation and amortization of \$56,962,429 ...	
Other assets.....	
Total assets.....	

**Liabilities And Stockholder's Equity**

Liabilities:	
Short-term borrowings .....	
Due to affiliate.....	
Payables to brokers, dealers and clearing organizations .....	
Payables to customers.....	
Customer drafts payable .....	
Securities sold under agreements to repurchase.....	
Securities sold, not yet purchased, at fair value.....	
Other liabilities.....	
Total liabilities.....	
Stockholder's equity:	
Common stock, par value \$.625 per share: authorized shares 100,000,000; 29,404,235 issued and outstanding shares.....	
Paid-in capital .....	
Retained earnings.....	
Total stockholder's equity .....	
Total liabilities and stockholder's equity .....	

*See accompanying notes.*

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**June 30, 2011**

.....	\$	337,391,426
.....		89,300,000
.....		38,122,183
.....		47,985,957
.....		393,551,847
.....		250,834,795
.....		923,626,374
.....		32,939,956
.....		267,295,389
.....	\$	<u>2,381,047,927</u>

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.....	\$	34,213,000
.....		22,528,835
.....		25,625,833
.....		478,735,348
.....		35,600,815
.....		197,921,888
.....		322,476,443
.....		342,524,602
.....		<u>1,459,626,764</u>

.....	\$	18,377,647
.....		50,590,824
.....		852,452,692
.....		<u>921,421,163</u>
.....	\$	<u>2,381,047,927</u>

# Notes To Consolidated Statement of Financial Condition (Unaudited) Morgan Keegan & Company, Inc. and Subsidiary June 30, 2011

## **NOTE 1 – DESCRIPTION OF THE COMPANY AND BASIS OF PRESENTATION**

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, Inc. (the Parent or Regions). The Company provides a broad range of investment services to its clients from over 300 offices in 19 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 services to its retail and institutional clients and trust services to its retail clients. The Company is a member of the Financial Industry Regulatory Authority and a member of certain principal exchanges.

The Consolidated Financial Statements include the accounts of the Company and its subsidiary, MK Asset, Inc., after elimination of all material intercompany balances and transactions.

The Company has evaluated subsequent events for potential recognition and disclosure through the date these financial statements were issued.

## **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 fair value. See Note 13 for discussion of determining fair value.

**Securities Transactions:** Proprietary securities transactions and related commission revenue and expense are recorded on a trade date basis. Customers' securities transactions are recorded on a settlement date basis with related commissions and clearing expenses recorded on a trade date basis.

**Securities:** Securities owned and securities sold, not yet purchased are carried at fair value and unrealized gains and losses are reflected in current period operations.

**Furniture, Equipment and Leasehold Improvements:** Furniture, equipment and leasehold improvements are carried at cost. Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of furniture, equipment and leasehold improvements.

**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.

**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.

**Goodwill:** The cost in excess of fair value of identifiable net assets of businesses acquired is recorded as goodwill. In accordance with Accounting Standards Codification (ASC) 350, Intangibles – Goodwill and Other, an analysis is performed at least annually to compare the fair value of the reporting unit to the carrying amount to determine if any impairment exists. The Company performs its annual impairment assessment as of October 1 of each fiscal year, unless circumstances dictate an interim assessment. No impairment losses were recorded during the six months ended June 30, 2011.

**Impairment of Long-Lived Assets:** The Company evaluates the recoverability of its long-lived assets in accordance with ASC 360, Property, Plant and Equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable and exceeds its fair value. When such an event occurs, the Company compares the sum of the undiscounted expected future cash flows of the asset (asset group) with the carrying amounts of the asset. If the undiscounted

expected future cash flows are less than the carrying value of the assets, the Company measures the amount of impairment loss as the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairment losses were recorded during the six months ended June 30, 2011.

**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 financial statements.

**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 are performed in accordance with ASC 360. There were no exchange membership impairments during the six months ended June 30, 2011.

**Use of Estimates:** The preparation of financial statements 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 financial statements 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.

**Recently Adopted Application of Accounting Standards:** In June 2009, the FASB issued accounting guidance modifying how a company determines when a variable interest entity (VIE) should be consolidated. It also requires a qualitative assessment of an entity's determination of the primary beneficiary of a VIE based on whether the entity (1) has the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (2) has the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. An ongoing reassessment is also required to determine whether a company is the primary beneficiary of a VIE as well as additional disclosures about a company's involvement in VIEs. The guidance was effective January 1, 2010 and its adoption did not have a material impact to the Company.

On September 30, 2009, the FASB issued Accounting Standards Update No. 2009-12. ASU 2009-12 amends ASC 820, Fair Value Measurements and Disclosures, by providing additional guidance on measuring the fair value of certain alternative investments. Under the amended guidance, entities are permitted, as a practical expedient, to estimate the fair value of investments within its scope using the net asset value (NAV) per share of the investment as of the reporting entities' measurement dates. The amended guidance applies only to investments in entities that calculate NAV (or its equivalent, such as member units or an ownership interest in partners' capital) consistent with the measurement principles of ASC 946, Financial Services – Investment Companies (i.e., entities that measure investment assets at fair value on a recurring basis). The Company adopted the guidance in ASU 2009-12 on January 1, 2010 and the adoption of the guidance did not have material impact on the Company.

On January 21, 2010, the FASB issued Accounting Standards Update No. 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends FASB Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, to require additional disclosures regarding fair value measurements. The amended guidance requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy. Entities are also required to disclose information in the Level 3 roll forward about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, ASU 2010-06 also amends Topic 820 to further clarify existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. The Company adopted the guidance in ASU 2010-06 on January 1, 2010, and the adoption of the guidance did not have material impact on the Company.

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, Receivables (Topic 310), related to disclosures about the credit quality of financing receivables and the allowance for credit losses. The amended guidance applies to all financing receivables except for short-term trade receivables and receivables measured at either fair value or the lower of cost or fair value. The objective of the amendment is disclosure of information that enables financial statement users to understand the nature of inherent credit risks, the entity's method of analysis and assessment of

credit risk in estimating the allowance for credit losses, and the reasons for changes in both the receivables and allowances when examining a creditor's portfolio of financing receivables and its allowance for losses. The Company adopted this guidance as of December 31, 2010, for the disclosures related to end of period financial reporting.

In December 2010, the FASB issued Accounting Standards Update No. 2010-28, Intangibles – Goodwill and Other. ASU 2010-06 describes the considerations entity's must give regarding whether it is more likely than not that goodwill impairment exists for each reporting unit with a zero or negative carrying amount. As a result, an entity can no longer assert that a reporting unit is not required to perform the second step of the goodwill impairment test because the carrying amount of the reporting unit is zero or negative, despite the existence of the qualitative factors that indicate goodwill is more likely than not impaired. The amended guidance is effective for fiscal years beginning after December 15, 2010, with early adoption prohibited. The adoption of the guidance is not expected to have a material impact on the Company.

### **NOTE 3 – SHORT TERM BORROWINGS**

At June 30, 2011, 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 no outstanding balance at June 30, 2011. There were no compensating balances associated with these lines of credit, and there is no stated expiration. The lines bear interest at the LIBOR rate plus 150 basis points on the secured line and LIBOR rate plus 300 basis points on the unsecured line.

At June 30, 2011, the Company had total lines of credit with other financial institutions of \$640,000,000, with expirations on various dates prior to December 31, 2011, under which \$65,000,000 could be borrowed on an unsecured basis. Outstanding balances against these lines of credit totaled \$34,213,000 at June 30, 2011. There were no compensating balances associated with these lines of credit. Secured amounts are collateralized by securities held in safekeeping at the respective financial institution. The lines bear interest at rates linked 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, 2011 or during the six months ended June 30, 2011.

### **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, 2011:

U.S. Government obligations	\$ 372, 331,580
Corporate bonds	27,321,903
Stocks	188,619,227
State and municipal obligations	330,278,194
Bankers' acceptances	<u>5,075,470</u>
	<u>\$ 923,626,374</u>

State and municipal obligations include an issue with a par value of \$12,700,000, which is recorded at an estimated fair value of \$3,900,000 at June 30, 2011, as determined by management of the Company, which is the amount expected to ultimately be recovered from the bonds.

Deposits with clearing organizations and others consist of cash of \$26,014,958 and securities with a total fair value of \$12,107,225 at June 30, 2011.

Securities segregated for regulatory purposes consist of U.S. Government obligations with a total fair value of \$89,300,000 at June 30, 2011. These securities are on deposit in a special reserve bank account to satisfy the Company's reserve requirement under Rule 15c3-3 of the Securities and Exchange Commission.

Securities sold, not yet purchased consist of the following, at fair value, as of June 30, 2011:

U.S. Government obligations	\$ 294,483,784
Corporate bonds	10,433,106
Stocks	12,273,313
State and municipal obligations	8,240
Bankers' acceptances	<u>5,278,000</u>
	<u>\$ 322,476,443</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, 2011:

### Receivable:

Securities failed to deliver	\$ 30,817,345
Due from clearing organizations	274,782
Securities borrowed	16,891,650
Other	2,180
	<u>\$ 47,985,957</u>

### Payable:

Securities failed to receive	\$9,401,803
Due to clearing organizations	524,821
Securities loaned	15,699,209
	<u>\$25,625,833</u>

## NOTE 7 – LEASES

The Company leases office space, furniture and equipment under noncancelable leases expiring through 2020, with options to renew certain of the leases for up to an additional five years. Some of the office space leases contain escalation provisions.

Aggregate future annual minimum rental commitments for the years ending December 31 are as follows:

2011	\$ 25,052,726
2012	20,282,271
2013	19,120,384
2014	16,756,833
2015	15,356,357
Thereafter	35,025,218
	<u>\$ 131,593,789</u>

Future minimum rental commitments to related parties included in the amounts above total \$12,702,040.

## NOTE 8 – COMMITMENTS AND CONTINGENCIES

At June 30, 2011, the Company had pledged \$90,063,771 in customer-owned securities to cover customer margin requirements with a clearing organization.

Regions and certain of its affiliates have been named in class-action lawsuits filed in federal and state courts on behalf of investors who purchased shares of certain mutual funds in the Regions Morgan Keegan Fund complex (the Funds) and shareholders of Regions. The Funds were formerly managed by Morgan Asset Management, Inc. (MAM). 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 class has been certified and, at this stage of the lawsuits, Regions cannot determine the probability of a material adverse result or reasonably estimate a range of potential exposures, if any. However, it is possible that an adverse resolution of these matters may be material to the Company's consolidated financial position or results of operations.

Certain of the shareholders in the Funds and other interested parties have entered into arbitration proceedings and individual civil claims, in lieu of participating in the class action lawsuits. Although it is not possible to predict the ultimate resolution or financial liability with respect to these contingencies, management currently believes that the outcome of these proceedings will not have a material effect on the Company's consolidated financial position or results of operations.

On April 7, 2010, the Company, MAM and two employees were charged by the Securities and Exchange Commission (SEC) for allegedly failing to establish and maintain adequate procedures for the pricing of portfolio securities for the Funds, publishing inaccurate net asset values for the Funds and intentionally manipulating the prices of the Funds' portfolio securities. At the same time, four states, Alabama, Kentucky, Mississippi and South Carolina, instituted administrative charges against the Company, MAM and four employees alleging sales practice violations in the marketing and sale of the Funds. Additionally, FINRA instituted administrative proceedings regarding sales literature related to the Funds. On June 22, 2011, the Company, MAM and two employees settled all charges related to the Funds. The settlement called for a payment of \$210 million, the vast majority of which was to be paid into a Fair Fund for the benefit of investors. The settlement amount had been previously reserved. Based on management's evaluation of the related underlying activities and responsibilities outlined in the settlement, the Company paid \$35 million while other unconsolidated affiliates paid the remaining balance.

In March 2009, Morgan Keegan received a Wells notice from the SEC's Atlanta Regional Office related to auction rate securities (ARS) indicating that the SEC staff intended to recommend that the Commission take civil action against the Company.

On July 21, 2009, the SEC filed a complaint in United States District Court for the Northern District of Georgia against the Company alleging violations of the federal securities laws in connection with ARS that Morgan Keegan underwrote, marketed and sold. On June 28, 2011, the Court granted Morgan Keegan's Motion for Summary Judgment, dismissing the case brought by the SEC. Beginning in February 2009, the Company commenced a voluntary program to repurchase ARS that it underwrote and sold to the firm's customers, and extended that repurchase program on October 1, 2009 to include certain ARS that were sold by Morgan Keegan to its customers but were underwritten by other firms.

As of June 30, 2011, customers of Morgan Keegan owned approximately \$46 million in ARS at par value and Morgan Keegan held approximately \$144 million of ARS, at fair value on its balance sheet. On July 21, 2009, the Alabama Securities Commission issued a "Show Cause" order to the Company arising out of the ARS matter that is the subject of the SEC complaint described above. The order requires Morgan Keegan to show cause why its registration as a broker-dealer should not be suspended or revoked in the State of Alabama and also why it should not be subject to disgorgement, repurchasing all ARS sold to Alabama residents and payment or costs and penalties. Although it is not possible to predict the ultimate resolution or financial liability with respect to the ARS matter, management currently believes that the outcome of this matter will not have a material effect on the Company's business, consolidated financial position or results of operations.

The Company is also involved in other 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 financial position or results of operations.

## NOTE 9 – 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, 2011, are as follows:

### Deferred tax assets

Deferred compensation	\$ 39,019,084
Litigation reserves	41,515,017
Intangibles	3,263,668
Other	<u>4,029,592</u>
Deferred tax asset	<u>87,827,361</u>

### Deferred tax liabilities

Accumulated depreciation and related items	3,900,727
Other	<u>305,706</u>
Deferred tax liability	<u>4,206,433</u>
Net deferred tax assets	<u>\$ 83,620,928</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

The Company accounts for uncertain tax positions in accordance with ASC 740, Income Taxes, which requires that only benefits from tax positions that are more-likely-than-not of being sustained upon examination should be recognized in the consolidated statement of financial condition. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at December 31, 2010	\$ 1,884,564
Additions	—
Subtractions	<u>—</u>
Balance at June 30, 2011	<u>\$ 1,884,564</u>

## NOTE 10 – REVERSE PURCHASE AND REPURCHASE AGREEMENTS

The Company enters into repurchase agreements with an 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. Government securities segregated in a special reserve bank account for the benefit of customers under rule 15c3-3 of the Securities and Exchange Commission represents securities purchased under an agreement to resell of \$89,300,000 at June 30, 2011.

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 11 – GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill included in Other Assets on the Consolidated Statement of Financial Condition are as follows:

Balance at January 1, 2011	\$ 40,113,279
Additions	–
Impairment charges	–
Balance at June 30, 2011	<u>\$ 40,113,279</u>

Intangible assets, which are included in Other Assets on the Consolidated Statement of Financial Condition, consist of the following:

Customer lists	\$ 22,416,000
Employment contracts	<u>11,782,012</u>
Total amortizable intangible assets	34,198,012
Less: accumulated amortization	<u>25,101,386</u>
New amortizable intangible assets	<u>\$ 9,096,626</u>

Estimated aggregate amortization expense for each of the succeeding five fiscal years is as follows:

Year Ending:	
2011	\$ 3,485,592
2012	1,085,800
2013	1,085,800
2014	819,400
2015	819,400

## NOTE 12 – RELATED PARTY TRANSACTIONS

Amount due to affiliates at June 30, 2011, represents approximately \$22.5 million payable to the Parent. The balance arose in the normal course of business.

At June 30, 2011, the Company had approximately \$19.8 million on deposit with the Parent, which is included in Cash on the Consolidated Statement of Financial Condition. The Company also receives income from the Parent related to money fund balances and other fees. At June 30, 2011, the Company had received approximately \$9.3 million of fee income from the Parent. The majority of this income is included in Investment Management Fees on the Consolidated Statement of Income.

## NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company defines fair value as the price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses a hierarchy of valuation inputs to measure fair value.

The hierarchy prioritizes the inputs into three broad levels:

- 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, 2011:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
Securities segregated for regulatory purposes				
U.S. government obligations	\$ 89,300,000	\$ —	\$ —	\$ 89,300,000
Total securities segregated for regulatory purposes	<u>\$ 89,300,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 89,300,000</u>
Securities owned				
U.S. government obligations	\$ —	\$ 311,290,238	\$ 61,041,342	\$ 372,331,580
Corporate bonds	—	27,321,903	—	27,321,903
Stocks	188,619,227	—	—	188,619,227
State and municipal obligations	—	182,578,344	147,699,850	330,278,194
Banker's acceptances	—	—	5,075,470	5,075,470
Total securities owned	<u>\$ 188,619,227</u>	<u>\$ 521,190,485</u>	<u>\$ 213,816,662</u>	<u>\$ 923,626,374</u>
<b>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
Securities sold, not yet purchased				
U.S. government obligations	\$ —	\$ 278,287,938	\$ 16,195,846	\$ 294,483,784
Corporate bonds	—	10,426,332	6,774	10,433,106
Stocks	12,273,313	—	—	12,273,313
State and municipal obligations	—	8,240	—	8,240
Banker's acceptances	—	—	5,278,000	5,278,000
Total securities sold, not yet purchased	<u>\$ 12,273,313</u>	<u>\$ 288,722,510</u>	<u>\$ 21,480,620</u>	<u>\$ 322,476,443</u>

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 consolidated statement of financial condition.

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, 2011:

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3 measurements only)</b>	
	<b>Securities Owned</b>	<b>Securities sold, not yet purchased</b>
Beginning balance, January 1, 2011	\$ 228,342,559	\$ (9,379,097)
Total gains (losses) realized and unrealized included in earnings	15,611,468	90,754
Purchases and issuances	4,763,587,631	26,876,720
Settlements	(4,794,854,084)	(39,068,997)
Transfers in and/or out of Level 3	1,129,088	—
Ending balance, June 30, 2011	<u>\$ 213,816,662</u>	<u>\$ (21,480,620)</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, 2011, the contract amount of future contracts to purchase and sell securities was approximately \$8.5 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 is 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 financial 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

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