

SEC ACCUSES MORGAN KEEGAN, TWO EMPLOYEES OF FRAUD

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MORGAN KEEGAN AND TWO EMPLOYEES WITH FRAUD RELATED TO SUBPRIME MORTGAGES

Washington, D.C., April 7, 2010 - The Securities and Exchange Commission today announced administrative proceedings against Memphis, Tenn.-based firms Morgan Keegan & Company and Morgan Asset Management and two employees accused of fraudulently overstating the value of securities backed by subprime mortgages.

The SEC's Division of Enforcement alleges that Morgan Keegan failed to employ reasonable procedures to internally price the portfolio securities in five funds managed by Morgan Asset, and consequently did not calculate accurate "net asset values"

(NAVs) for the funds. Morgan Keegan recklessly published these inaccurate daily NAVs, and sold shares to investors based on the

inflated prices.

"This scheme had two architects - a portfolio manager responsible for lies to investors about the true value of the assets in his funds, and a head of fund accounting who turned a blind eye to the fund's bogus valuation process," said Robert Khuzami, Director of the SEC's Division of Enforcement.

William Hicks, Associate Director in the SEC's Atlanta Regional Office, said, "This misconduct masked from investors the true impact of the subprime mortgage meltdown on these funds."

According to the Commission's order instituting administrative proceedings, the SEC's Enforcement Division alleges that James C. Kelsoe, Jr., the portfolio manager of the funds and an employee of Morgan Asset and Morgan Keegan, arbitrarily instructed the firm's Fund Accounting department to make "price adjustments" that increased the fair values of certain portfolio securities. The price adjustments ignored lower values for those same securities quoted by various dealers as part of the pricing validation process. The Enforcement Division further alleges that Kelsoe actively screened and manipulated the pricing quotes obtained from at least one broker-dealer. With many of the funds' securities backed by subprime mortgages, Kelsoe's actions fraudulently prevented a reduction in the NAVs of the funds that otherwise should have occurred as a result of the deterioration in the

subprime securities market.

The SEC's Division of Enforcement additionally alleges that Joseph Thompson Weller, a CPA who was head of the Fund Accounting Department and a member of the Valuation Committee, did nothing to remedy the deficiencies in Morgan Keegan's valuation procedures, nor did he otherwise make sure that fair-valued securities were being accurately priced and NAVs were being accurately calculated.

According to the SEC's order initiating proceedings, Morgan Keegan priced each portfolio's securities and calculated its daily NAV through its Fund Accounting Department. The NAV of an investment company is its total assets minus its total liabilities. An investment company calculates the NAV of a single share by dividing its NAV by the number of shares that are outstanding.

According to the SEC's order, each fund held various amounts of securities backed by subprime mortgages and lacked readily available market quotations. Therefore, the securities were internally priced using fair value methods to determine the amount that the funds would reasonably expect to receive on a current sale of the security. In SEC filings, the funds stated that the fair value of securities would be determined by a valuation committee using procedures adopted by the funds. In fact, the responsibility was essentially delegated to Morgan Keegan, which along with the valuation committee failed to comply with

the funds' procedures in several ways.

The SEC's Division of Enforcement alleges that from at least January 2007 to July 2007, Kelsoe had his assistant send approximately 262 "price adjustments" to Fund Accounting. In many instances, these adjustments were arbitrary and did not reflect fair value. Despite the lack of any supporting documentation, Kelsoe's price adjustments were routinely entered into a spreadsheet used to calculate the NAVs of the funds.

Kelsoe also routinely instructed Fund Accounting to ignore month-end quotes from broker-dealers that were supposed to be used to validate the prices the firm had assigned to the funds' securities.

A hearing will be scheduled before an administrative law judge to determine whether the respondents committed the alleged violations and provide them an opportunity to defend the allegations. The hearing also will determine what sanctions, if any, are appropriate in the public interest, and whether financial penalties should be imposed.

The Commission appreciates the assistance of FINRA and a task force of the securities regulators of Mississippi, Alabama, Georgia, Kentucky, South Carolina, North Carolina, Florida, Tennessee, Missouri, Texas, Louisiana, Arkansas, and Illinois.