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<p>1 2 EXAMINATION 3 UNDER 4 OATH 5 6 OF 7 8 CARTER E. ANTHONY, CFA 9 10 October 15, 2009 11 12 1901 6th Avenue North, Suite 2400 13 Birmingham, Alabama 35203 14 15 16 17 18 19 20 REPORTED BY: Teresa Turquitt Davis 21 Certified Court Reporter, 22 Registered Professional 23 Reporter and Notary Public</p>	<p>1 A P P E A R A N C E S (Continuing) 2 3 Mr. Peter J. Anderson 4 Partner 5 Sutherland, Asbill & Brennan, LLP 6 999 Peachtree Street, NE 7 Atlanta, Georgia 30309-3996 8 9 Mr. Rufus E. Elliott, III 10 Attorney at Law 11 Williams & Elliott 12 1924 29th Avenue South 13 Birmingham, Alabama 35209 14 15 16 17 18 19 20 21 22 23</p>
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<p>1 A P P E A R A N C E S 2 3 Mr. Mike Huggs 4 Director - Mississippi 5 Secretary of State's Office 6 Securities & Charities Division 7 Post Office Box 136 8 Jackson, Mississippi 39205 9 10 Mr. J. Randall McNeill 11 Alabama Securities Commission 12 Deputy Director 13 401 Adams Avenue, Suite 280 14 Montgomery, Alabama 36104 15 16 Mr. Robert D. Terry 17 Director 18 Securities and Business 19 Regulation Division 20 Karen C. Handel, Secretary of State 21 2 Martin Luther King, Jr. Drive, SE 22 Suite 802 West Tower 23 Atlanta, Georgia 30334</p>	<p>1 CARTER ANTHONY, 2 being first duly sworn, was examined and 3 testified as follows: 4 5 MR. MCNEILL: We are on the 6 record now. Mike Huggs is going to be doing 7 primarily the interview. He has been, for 8 lack of a better description, the quarterback 9 for all the states on this task force. 10 I would consider this more to be 11 just a formal interview or a sworn statement 12 than I would as to anything -- as to even in 13 regards to a deposition because obviously we 14 don't have anything really courtwise filed, 15 but we have investigations going. 16 I can't even keep track of all 17 the states, but we have got -- the obvious 18 ones are Mississippi, Georgia, Alabama, 19 Florida, Louisiana, Texas, Tennessee, 20 Missouri, Illinois, North Carolina, South 21 Carolina. 22 MR. ANDERSON: Arkansas. 23 MR. MCNEILL: Arkansas.</p>

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<p>1 Missouri, did I mention them? 2 MR. TERRY: Yes. 3 MR. MCNEILL: I think that is it. 4 Oklahoma is not in it. 5 MR. ELLIOTT: Kentucky. 6 MR. MCNEILL: Kentucky is in it. 7 MR. HUGGS: Thirteen total. 8 MR. MCNEILL: So those are all 9 the states that have gotten investigations 10 going into the Morgan Keegan RMK Fund matter. 11 These questions are just going to relate to 12 your knowledge when you were there at Morgan 13 Asset Management primarily, kind of get some 14 background obviously on you, Mr. Anthony. I 15 do not anticipate this is going to be like a 16 deposition that would take a very long time as 17 you would think. And with that, I'm going to 18 turn it over to Huggs. 19 20 EXAMINATION BY MR. HUGGS: 21 Q. Hey, Mr. Anthony. 22 A. Hey, Mike. 23 Q. What was your last position at</p>	<p>1 went to National Bank of Commerce, which is 2 now RBC Bank here in Birmingham, and I was in 3 charge of trust investments for that company 4 there. 5 Highlights were when I went 6 there, we had \$100 million in assets; and when 7 I left about 15 years later, we had \$950 8 million in assets, and I was individually 9 managing \$450 million in stocks and bonds. 10 I was approached by Ken Alderman 11 to come over to become the president and chief 12 investment officer of what was then the 13 Capital Management Group, which was part 14 trust, which was part of Regions Financial 15 Corp. 16 Q. Excuse me for interrupting. 17 About when was that? 18 A. October of 2000. The interview 19 process started in March. That was in October 20 of 2000. About six months later, Regions 21 bought Morgan Keegan. 22 At that time we had -- "we" the 23 company had to decide how to merge everything</p>
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<p>1 Morgan Asset Management? 2 A. I was president and chief 3 investment officer. 4 Q. Can you walk me through your 5 employment history leading up to you becoming 6 president of Morgan Asset Management? 7 A. All of it? 40 years of it? Do 8 you want that? 9 Q. How about the highlights? 10 A. I spent 15 years working for 11 Liberty National Life Insurance Company, Globe 12 Life Insurance Company and Torchmark 13 Corporation. They are the two companies being 14 part of Torchmark. I was involved in the 15 investment management for Liberty National, 16 Globe Life, United American managing 17 institutional investments and stock and bonds, 18 high quality stocks and bonds. 19 After being there 15 years, the 20 last three years I was in charge of investor 21 relations for Torchmark, which is still 22 involved in investments. 23 After being there 15 years, I</p>	<p>1 together. There were little bits and pieces 2 like Morgan Keegan had a trust department. It 3 was just a tiny little trust department. They 4 had Morgan Asset Management, which was an even 5 smaller asset management group. And I think 6 their trust department may have had \$100 7 million in assets, and Morgan Asset Management 8 may not have had that much, I don't know, I 9 have forgotten. 10 So what do we do with all those 11 groups there, and the decision was made to 12 bring trust in under Regions Trust, bring 13 Morgan Keegan Trust in under Regions Trust. 14 And what do you do with the Capital Management 15 Group and Morgan Asset Management Group -- the 16 Capital Management Group had 30 portfolio 17 managers and assistants. 18 Morgan Asset Management at Morgan 19 Keegan had, I think, six employees. And I 20 don't know how many dollars in assets, really. 21 They had three mutual funds, I know that, one 22 equity fund that we eventually did away with. 23 But through a number of meetings</p>

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<p style="text-align: right;">Page 9</p> <p>1 with Allen Morgan, Doug Edwards and Ken 2 Alderman, we decided to -- and I'm not exactly 3 sure whether we merged the Capital Management 4 Group into the Morgan Asset Management or vice 5 versa. But whatever, we took on the name 6 Morgan Asset Management. And I was there six 7 years, a little more than six years. 8 When Regions and AmSouth decided 9 to merge, once again, meetings were held about 10 who was going to do what. I was turned out to 11 pasture. I was asked to retire, which I had a 12 very nice severance package, both from the 13 trust department and from the corporation 14 itself. I had no problem with it, except part 15 of it didn't get paid. 16 So, you know, that sort of brings 17 you up to there. But on 12/31/06, that was my 18 last day, I was removed from any 19 responsibility in August of '06, and Brian 20 Sullivan took my place. 21 Is that comprehensive enough? 22 Q. That is great. Thank you. When 23 the mergers of Morgan Keegan Trust and the</p>	<p style="text-align: right;">Page 11</p> <p>1 Q. As president of Morgan Asset 2 Management, what were your responsibilities? 3 A. Well, my responsibilities were to 4 develop the best trust investments I could 5 possibly develop. What we had was not very 6 good. The portfolio manager was not very 7 good. One that I had to terminate, the best 8 job he has found so far is to be a used car 9 salesman. That is some of the kind of guys 10 that worked there. 11 And my job was to develop an 12 investment discipline that could be 13 communicated to the trust officers who were 14 the people that are on the point with the 15 customers and develop this investment 16 discipline the trust clients would totally 17 embrace, and to develop a communication system 18 to trust officers and to customers and to the 19 bank executive officers. And we wound up with 20 like a 10,000 person list of stuff going out 21 and going to California and places like that. 22 That really was what my responsibility was. 23 That is what I have done my entire life, high</p>
<p style="text-align: right;">Page 10</p> <p>1 Asset Management Group for Morgan Keegan and 2 Regions Financial groups took place, you 3 mentioned they had three funds. What were 4 those funds? 5 A. They had a high-yield bond fund, 6 an intermediate term bond fund, and I think 7 they called the stock fund a financial fund. 8 It was going away. They had no support for it 9 whatsoever. And I have forgotten how that was 10 handled, but they had to get rid of it. 11 Elkan Scheidt was managing it 12 side by side. When Kelsoe was managing the 13 bond funds, Elkan was managing the stock fund, 14 and it had no support. And I don't know 15 whether we liquidated it or whether we merged 16 it in our value fund. We did one or the 17 other. 18 And then Elkan left and became, I 19 think, the equity strategist for Morgan 20 Keegan. And they had two assistant guys 21 there, and one of them wound up working for 22 Kelsoe, or both of them did. One went from 23 Elkan to Kelsoe.</p>	<p style="text-align: right;">Page 12</p> <p>1 quality investments, which is what you want to 2 have in a trust department. 3 Q. The three funds that came on 4 board with the mergers, did they fall under 5 your Morgan Asset Management? 6 A. They fell on the organization 7 chart, but I had no management of them 8 whatsoever. I was charged with what 9 eventually wound up to be about 55 people 10 managing trust investments. I have forgotten 11 how many dollars we had under management, but 12 I had no control over the high-yield funds or 13 the intermediate term bond fund. That was a 14 product that was developed for retail to be 15 sold through the brokers. 16 I spent three or four years 17 trying to get the brokers to sell our mutual 18 fund, our generic mutual funds over here 19 (indicating), which was tough to do. But I 20 did get some of those placed. I didn't do 21 anything over here (indicating). 22 Q. What would be an example of the 23 generic mutual funds?</p>

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<p>1 A. We had a large cap growth fund, 2 large cap value fund, mid cap growth and 3 value, fixed income fund, limited maturity 4 fund, I think three money market funds. And I 5 say generic because, you know, there are 6 thousands of them if you look at the peer 7 groups. 8 MR. TERRY: Those funds did not 9 exist? When you came in, you developed those 10 funds? 11 A. The generic funds? 12 MR. TERRY: Yes. 13 A. No, they did exist when I got 14 there. 15 MR. TERRY: Oh, they did. Okay. 16 They existed. 17 A. They were put in place, I think, 18 in '95, I believe. 19 MR. TERRY: Okay. 20 A. And I got there in 2000. 21 MR. TERRY: What were the names 22 of a couple of them? Not all of them. 23 A. At the end -- and they have all</p>	<p>1 remember. Well, I didn't do it, but I did do 2 it this week, and a lot of things have come 3 back. And I'm sure that you are referring to 4 the organization chart, I think you are. 5 Kelsoe was on my organization chart. He was 6 on there merely as a formality. I didn't put 7 him on there. The organization -- the first 8 organization chart that was delivered to me 9 came from Ken Alderman, who was head of trust 10 and asset management. He had ultimate 11 responsibility for trust and asset management, 12 and started many talks, but I'm going to 13 address both of those today. 14 MR. TERRY: Would you mind 15 spelling that name just for the benefit of the 16 court reporter? 17 A. A-L-D-E-R-M-A-N. And Jim being 18 on that org chart was simply a case of a 19 formality to have a place to put him. When we 20 were trying to make this decision about what 21 to do with the Capital Management Group and 22 Morgan Asset Management, we had probably three 23 meetings over a 12-month period of time. And</p>
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<p>1 been sold, they were the Regions Morgan Keegan 2 Select Mutual Funds. And within that you had 3 like the RMK large cap value, RMK large cap 4 growth. 5 MR. TERRY: Okay. 6 Q. (BY MR. HUGGS:) Although you 7 have said you were not responsible for the 8 management of the funds, did you ever have any 9 responsibilities for Mr. Kelsoe as the 10 manager? 11 A. No. Now, I can add a little 12 color to that, if you like. 13 MR. MCNEILL: We need color 14 today. 15 A. Because I have been asked so many 16 questions about this and have talked to so 17 many people about it and answered so many 18 questions, a lot of things have come back to 19 my memory here that really had been gone. 20 And when Rufus and I started 21 talking about this problem, I don't know, six 22 months ago or so, sometime like that, Rufus 23 said sit down and write down everything you</p>	<p>1 I don't like what Jim was managing. I mean, 2 everything I had ever done was you start with 3 treasuries. 4 If you can't get your yield 5 there, you go to agencies. And if you can't 6 get your yield there, you go to high grade 7 corporates. And if you can't get your yields 8 there, you don't buy anything, you sit on it a 9 while. I did not like the product at all. 10 So in the last meeting that we 11 had after talking about it three times, 12 probably maybe 30 minutes, an hour each time, 13 I said I have an idea. What Ken is trying to 14 do is he's trying to get the Capital 15 Management Group closer to the Morgan Keegan 16 brokers and our mutual funds, that is what he 17 is trying to do. 18 And what Allen Morgan and Doug 19 Edwards were trying to do was they sort of 20 wanted to find a place for Jim Kelsoe because 21 he didn't fit anything else that they had 22 there. So I said okay, we are all trying to 23 make a connection with the brokers because</p>

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<p style="text-align: right;">Page 17</p> <p>1 they are the salespeople, why don't we just 2 rename the Capital Management Group, Morgan 3 Asset Management, you've got 30 something 4 people in there, got our mutual funds in 5 there, and rename Kelsoe, Morgan Keegan Asset 6 Management, which is a more direct connection, 7 it keeps him more directly connected. And 8 they said nope, we want to have one variety, 9 so the vote was three to one.</p> <p>10 Q. So you being the one?</p> <p>11 A. Yeah. And then, you know, Jim 12 wound up on the org chart. I had no 13 responsibility for him. Time and time again I 14 was told by Morgan and Edwards leave Kelsoe 15 alone, he's doing what we want him to do, he's 16 also a little bit strange, he gets mad easy, 17 leave him alone; and I left him alone. I did 18 what I was told to do.</p> <p>19 Now, what Alderman -- what went 20 on with Doug and Ken, I don't know. They 21 talked an awful lot. Ken came down and said 22 they have negotiated a new contract with 23 Kelsoe, they are going to send it to you.</p>	<p style="text-align: right;">Page 19</p> <p>1 So I developed a management 2 situation where like Susan McClure, who is in 3 Mobile, just wonderful portfolio manager, 4 managed the office and then she did the 5 reviews for everybody down there and I 6 approved them.</p> <p>7 And then Charlie Murray, who was 8 a mutual fund manager, worked for Susan. And 9 because he did mutual funds, I did his review. 10 So I wound up with, I don't know, ten or 11 twelve reviews.</p> <p>12 MR. MCNEILL: Who did Kelsoe's 13 reviews?</p> <p>14 A. Well, I wrote up two of them, 15 completely a formality. They sent me a 16 review, I sat down at my desk, filled it out, 17 sent it to him and said here it is. I never 18 went to see him to talk about it like I did 19 everybody else.</p> <p>20 MR. MCNEILL: You said "they" 21 sent you. Who are "they"?</p> <p>22 A. Well, those things were generated 23 by the bank, by Human Resources, I guess, and</p>
<p style="text-align: right;">Page 18</p> <p>1 When it comes down here, sign it. 2 Well, it came to me, Ken said to 3 sign it, Allen Morgan had already signed it; I 4 signed it. I don't think I even knew what he 5 was making. I didn't really care. It wasn't 6 coming out of my payroll over here for my 7 portfolio managers. But that is a little -- 8 you didn't ask for that, but that is a little 9 additional to your question.</p> <p>10 Q. Okay.</p> <p>11 MR. MCNEILL: Where was he being 12 paid from, which group then?</p> <p>13 A. You know, I don't know. I had to 14 deal with salaries at that time of 30 15 something people from Little Rock to 16 Gainesville, Georgia and Mobile. And I was 17 directly involved in their salary increases, 18 their salaries, everything. I went and sat 19 down with them. I think maybe for the first 20 year, I did like 30 something reviews because 21 there was no management structure within our 22 group for them. I think the next year I said 23 I can't do 30 reviews.</p>	<p style="text-align: right;">Page 20</p> <p>1 I think I may have done two of them, and then 2 no more.</p> <p>3 MR. TERRY: Would those have been 4 sent to you through via e-mail or interoffice 5 mail?</p> <p>6 A. Interoffice mail.</p> <p>7 Q. (BY MR. HUGGS:) Why did you not 8 treat him like you did the other reviews, just 9 send it to him and not visit with him like you 10 did your other employees?</p> <p>11 A. He was not my guy. I was doing 12 what Alderman and Edwards said to do and Human 13 Resources said to do and, you know, he was not 14 one of my guys.</p> <p>15 Q. What was Mr. Alderman's title?</p> <p>16 A. He was president and chief 17 executive officer of Regions Morgan Keegan 18 Trust and he was chief executive officer of 19 Morgan Asset Management. And I think he was 20 vice chairman of the Trust Company Board.</p> <p>21 Q. Okay. Doug Edwards, at this time 22 when you were told that Mr. Kelsoe was not 23 your guy --</p>

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<p>1 MR. ANDERSON: Have we 2 established when that was? 3 MR. HUGGS: I would like to know. 4 MR. MCNEILL: I would like to 5 know that, too. 6 A. It was all during the time that 7 we were there. 8 Q. From day one? 9 A. Pardon? 10 Q. From day one in 2000? 11 A. Yeah. Jim, for lack of a better 12 word, was sort of like on an island out there. 13 And whenever he had -- whenever he wanted 14 something or needed something, he went to 15 Doug. And then if it was something I could 16 furnish, Doug would call me. But, you know, 17 other than that, I didn't have any 18 responsibility for him. 19 And, you know, you can look at it 20 on the other side. During that period of 21 time, he was the best money manager, fixed 22 income manager in the country, based on the 23 numbers. He was just knocking the investment</p>	<p>1 publicly fighting in the halls. 2 Ken didn't take me up there. 3 Because, see, I succeeded in his position, so 4 these people worked for him while they worked 5 for me so he didn't take me to Little Rock to 6 meet them. 7 Q. During your interviews, did Mr. 8 Alderman explain to you that Mr. Kelsoe was 9 outside of your management? 10 A. We didn't get Morgan Keegan. 11 Let's see. We acquired Management Group in 12 April of 2001, and I went to work in October 13 of 2000. So Kelsoe and Morgan Keegan wouldn't 14 have been discussed during my interviews. 15 Q. Okay. I've got you. When Morgan 16 Keegan was acquired, you then had discussions 17 that Mr. Kelsoe would not be under your 18 supervision or management? 19 A. Leave him alone. 20 Q. Okay. 21 A. He's a strange guy, leave him 22 alone. 23 Q. Is there a specific meeting or</p>
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<p>1 returns dead. 2 Q. When you were recruited to come 3 on board as president of Morgan Asset 4 Management or -- 5 A. Capital Management Group. The 6 CMG we call it. 7 Q. The original group, was that 8 discussed with you? 9 MR. ANDERSON: What was that? 10 Q. I'm sorry. Was the org chart and 11 the structure, the personnel that you would 12 supervise or manage or that would report to 13 you minus Mr. Kelsoe, was that discussed with 14 you, or did that -- 15 A. Oh, yeah. 16 Q. -- come later? 17 A. Oh, sure, yeah. No. I mean, we 18 discussed that during the interviews. 19 Immediately following, Ken took me to meet 20 some of them. We had a manager who shouldn't 21 have been a manager in Little Rock and we had 22 a portfolio manager who should have been the 23 manager in Little Rock, and they were like</p>	<p>1 was that explained to you with a memo or -- 2 A. It probably occurred in the first 3 meeting and it occurred times after that, to 4 just, you know, leave him alone, which is 5 fine. 6 I had a trust office in Memphis. 7 Joe Morrison was in charge of that trust 8 office. Jim Kelsoe and his group did not come 9 under Jim Morrison. I had a trust office in 10 Mobile. Susan McClure was in charge of that, 11 Charlie Murray worked in the same office with 12 Susan McClure. Same sort of deal in 13 Birmingham, Montgomery, Little Rock. In 14 Memphis, Joe Morrison was down there. Kelsoe 15 was down there except they were on different 16 floors for a while. There was no merger, no 17 meshing of talent there. I was in charge of 18 Joe Morrison, not Jim Kelsoe. 19 MR. MCNEILL: So he was really an 20 island to himself then? 21 A. That is a good way to put it. 22 Q. (BY MR. HUGGS:) The other fund 23 managers, how many other fund managers?</p>

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<p>1 A. Mutual fund?</p> <p>2 Q. Mutual fund managers, were they</p> <p>3 under Morgan Asset Management?</p> <p>4 A. Well, let's see. What did I read</p> <p>5 out to you? Nine or eleven funds. And some</p> <p>6 of them we had to double up on because our</p> <p>7 budget wouldn't allow us to manage funds like</p> <p>8 you should. It will take a second.</p> <p>9 Q. Approximate.</p> <p>10 A. I guess I probably had, I would</p> <p>11 say, six mutual fund managers. And from time</p> <p>12 to time because we lost people, I had to step</p> <p>13 in and manage funds myself. I had to manage</p> <p>14 the large cap value fund for probably about a</p> <p>15 year. And the fixed income fund, limited</p> <p>16 maturity fund for less than a year, which it</p> <p>17 was because we lost somebody and I had nobody</p> <p>18 to replace them.</p> <p>19 Q. Can you describe your supervision</p> <p>20 or management of those portfolio managers?</p> <p>21 A. I did.</p> <p>22 MR. MCNEILL: I think he wants to</p> <p>23 know like what kind of steps did you go</p>	<p>1 And then I usually featured one</p> <p>2 of the mutual fund managers or one of the</p> <p>3 other senior people. This was my group.</p> <p>4 Kelsoe was never on there. He may have gotten</p> <p>5 on there one time just to talk about how he</p> <p>6 did what he did. His people never got on our</p> <p>7 conference call.</p> <p>8 I had an annual meeting once a</p> <p>9 year, really good annual meeting. I had</p> <p>10 economists and strategists and analysts from</p> <p>11 New York and wherever to come down and speak</p> <p>12 to my group for two and a half days. And</p> <p>13 Kelsoe came to one meeting, the first meeting</p> <p>14 like in the middle of Monday afternoon because</p> <p>15 Doug Edwards was flying down here for</p> <p>16 something and Kelsoe hopped on the plane with</p> <p>17 him and then left and went back with Doug.</p> <p>18 That is the only time he attended anything</p> <p>19 that I had. He was not my responsibility. He</p> <p>20 didn't fit in with my group and, you know, I</p> <p>21 don't know how I can make that any plainer.</p> <p>22 Q. Do you know who did Mr. Kelsoe's</p> <p>23 performance appraisals?</p>
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<p>1 through on the supervision.</p> <p>2 Q. To supervise those fund managers?</p> <p>3 A. I did their reviews. I went and</p> <p>4 sat down with them with their reviews and went</p> <p>5 over step by step. I handled their raises. I</p> <p>6 did that myself. You had to do this review</p> <p>7 and then you had to propose a raise and then</p> <p>8 it had to be approved by Alderman.</p> <p>9 And I handled those personally.</p> <p>10 I went to see them at least -- in person at</p> <p>11 least every quarter and I had a meeting with</p> <p>12 them, sat down with them. I frequently went</p> <p>13 over their portfolios to make sure they</p> <p>14 weren't getting too far outside something I</p> <p>15 wanted them to be doing. We had a Monday</p> <p>16 afternoon conference call 3:00 in the</p> <p>17 afternoon every Monday. I had -- let's see.</p> <p>18 I had our chief economist who was managing a</p> <p>19 fixed income fund and some money market funds</p> <p>20 as well -- well, he was doing money market the</p> <p>21 last -- I had him speak first. Then we went</p> <p>22 around the horn and let other people make</p> <p>23 comments they wanted to make.</p>	<p>1 A. Well, I did two of them, like I</p> <p>2 said, just because they were sent to me.</p> <p>3 MR. TERRY: When you say --</p> <p>4 Q. Other than those?</p> <p>5 MR. TERRY: I'm sorry. When you</p> <p>6 say they were sent to you, were they sent to</p> <p>7 you in a completed -- as completed performance</p> <p>8 appraisals, here are the questions, here are</p> <p>9 the answers, put them on your form?</p> <p>10 A. No. It was just like, you know,</p> <p>11 a form that -- I have really forgotten what</p> <p>12 they look like, but it seems like to me you</p> <p>13 checked the box on performance, good,</p> <p>14 excellent or something like that, and you</p> <p>15 check the box and maybe write some comments</p> <p>16 in. It came from Human Resources. Jim was</p> <p>17 the number one manager in the country, how do</p> <p>18 I say he's doing a poor job?</p> <p>19 Q. So you checked the boxes and you</p> <p>20 wrote comments?</p> <p>21 A. Yeah. Uh-huh.</p> <p>22 MR. MCNEILL: May I chime in with</p> <p>23 a question, Mike, real quick? These</p>

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1 performance appraisals, were they done yearly,
2 biyearly?
3 A. Annually.
4 MR. MCNEILL: Can you remember --
5 I know this is a tough one. Can you remember
6 what years from 2001 to 2006 the ones that you
7 did?
8 A. It seems like it was 2004 and '5.
9 And I say that only because Peter sent me
10 copies of them, and I think that is right.
11 MR. MCNEILL: Okay. Thank you.
12 Q. (BY MR. HUGGS:) Can you remember
13 any comments you did write --
14 A. No.
15 Q. -- on those?
16 A. Maybe good job.
17 Q. Okay.
18 A. He was doing a good job. If I
19 had said bad job, I would have been looking
20 for a job.
21 MR. TERRY: Who did you report to
22 directly? Who did your performance reviews?
23 A. Ken Alderman.

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1 MR. TERRY: Alderman.
2 Q. (BY MR. HUGGS:) Other than the
3 two times that you did Mr. Kelsoe's
4 performance appraisal, do you know who, if
5 anybody, did any other performance appraisals?
6 A. I don't know.
7 Q. Do you even know that any other
8 performance appraisals were done?
9 A. No.
10 MR. TERRY: Were Mr. -- and I'm
11 sorry for interjecting here, but something
12 comes to mind. If you are quiet for a minute,
13 I may jump in.
14 Employees typically have
15 personnel files at companies. Was Kelsoe's
16 personnel file maintained with your other
17 employees' files or was that physically
18 maintained, kept somewhere else, if you know.
19 A. He may have had a file with me,
20 but as best I remember, there was nothing
21 in -- I mean, it was simply because he was on
22 the org chart and I had a file on everybody.
23 Files like Charlie Murray's who had been there

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1 30 something years, pretty thick.
2 My guess is that Jim's file had
3 those two performance reports in it and that
4 is all. I had nothing, no background,
5 nothing. And had no need to. And where it
6 was kept, if they were doing one, I don't
7 know. In a brokerage firm, if you are making
8 money, you don't need a file.
9 Q. (BY MR. HUGGS:) You described
10 how you supervised the fund managers other
11 than Kelsoe that were under you. Do you know
12 how or whom, if anyone, supervised or managed
13 Mr. Kelsoe in that matter?
14 A. Well, supervision and overseeing
15 might be two different things. As I said
16 earlier, Alderman had the ultimate
17 responsibility for Asset Management Trust. He
18 reported to Doug Edwards. If Jim wanted
19 anything, he called Doug Edwards. So you
20 really have to sort of say that Jim really
21 answered to Doug.
22 Q. Mr. Alderman reported to Doug
23 Edwards?

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1 A. Uh-huh.
2 Q. And we may have asked already,
3 but we may have gotten off that question, Doug
4 Edwards' title?
5 A. He was the president and CEO of
6 Morgan Keegan.
7 Q. Did you have any routine
8 communications with Regions financial
9 management executives or board?
10 A. No, not routine. Carl Jones and
11 I have known each other for probably 40
12 something years, and he was the chairman and
13 CEO of Regions. But in terms of business
14 communications, I took a couple of trips, an
15 analyst conference, something like that. I
16 came back and wrote it up in detail, and I
17 would send Carl and Rick a copy of it just
18 because they were up on the 18th floor and I
19 wanted them to know what I had learned. But
20 routine, no.
21 Q. Are you familiar with how
22 Mr. Kelsoe's fund trades were placed? And by
23 that, I mean, who placed orders.

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<p>1 A. No.</p> <p>2 Q. Are you familiar with who placed</p> <p>3 orders for the other fund managers?</p> <p>4 A. Absolutely. I set it up.</p> <p>5 Q. Okay. Did they use a particular</p> <p>6 desk at Morgan Keegan?</p> <p>7 A. Generic funds?</p> <p>8 Q. Yes, sir.</p> <p>9 A. The generic funds had a trading</p> <p>10 desk over here across the street and every</p> <p>11 portfolio -- I'm sorry, at the old Regions</p> <p>12 building across the street. On the --</p> <p>13 MR. ELLIOTT: That is in</p> <p>14 Birmingham.</p> <p>15 A. Yeah. What floor was it, 14th</p> <p>16 floor -- I have been gone two and a half</p> <p>17 years. I think it was the 14th floor.</p> <p>18 When I got here, we had trading</p> <p>19 being done in Montgomery, Birmingham and</p> <p>20 Little Rock. It's the stupidest thing you</p> <p>21 could ever find in an institutional investment</p> <p>22 firm. I centralized it in Birmingham. And</p> <p>23 all of the trades for the generic funds,</p>	<p>1 Q. Was not supposed to be.</p> <p>2 A. He may have gotten in a</p> <p>3 conversation with some brokers in a building,</p> <p>4 but he was hired to wholesale the generic</p> <p>5 mutual funds because we couldn't get a foot in</p> <p>6 the door. These guys were using so much of</p> <p>7 the high-yield product, we couldn't get a foot</p> <p>8 in the door, and so we hired Doug to go do</p> <p>9 that.</p> <p>10 Q. When you say "these guys were</p> <p>11 using so much of the high-yield product,"</p> <p>12 could you describe who you are talking about?</p> <p>13 A. Morgan Keegan brokers.</p> <p>14 Q. The retail brokers?</p> <p>15 A. Yeah.</p> <p>16 Q. Okay.</p> <p>17 MR. TERRY: Do you know if they</p> <p>18 were selling other stock funds, other funds</p> <p>19 that you were trying to broker?</p> <p>20 A. Oh, yeah.</p> <p>21 MR. TERRY: What funds were they</p> <p>22 generally selling?</p> <p>23 A. I don't know. They had an office</p>
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<p>1 stocks and bonds were done through three or</p> <p>2 four guys over there in a trading area. I</p> <p>3 centralized the whole thing. No trading for</p> <p>4 Jim Kelsoe's funds. He did his own trading.</p> <p>5 How he did it and who he did it with, I don't</p> <p>6 know.</p> <p>7 Q. Okay. Do you know Doug Harris?</p> <p>8 A. I do.</p> <p>9 Q. Okay. Did Mr. Harris work for</p> <p>10 Morgan Asset Management?</p> <p>11 A. He did.</p> <p>12 Q. Was he under your management?</p> <p>13 Did he report to you, for instance?</p> <p>14 A. I don't know who Doug reported</p> <p>15 to. He was a salesman. He was a wholesaler</p> <p>16 for the generic mutual funds, and I don't know</p> <p>17 who he reported to. I think he did</p> <p>18 wholesaling for maybe less than two years.</p> <p>19 Q. Was he also a wholesaler for the</p> <p>20 Kelsoe funds?</p> <p>21 A. Wasn't supposed to be.</p> <p>22 Q. I'm sorry, say that --</p> <p>23 A. He was not supposed to be.</p>	<p>1 in Memphis that cleared funds for them to use,</p> <p>2 and they had a process by which they cleared</p> <p>3 them, you know, returns for the last year or</p> <p>4 the last three years, the last five years,</p> <p>5 size of fund, length of time a manager has</p> <p>6 been there. And I think that we finally broke</p> <p>7 into that maybe in 2005 or something after</p> <p>8 about three or four years of trying.</p> <p>9 Charlie Murray in Mobile had the</p> <p>10 number one mid cap growth fund in the country</p> <p>11 in the year 2000, which was a terrible year</p> <p>12 for the stock market. And then he was in the</p> <p>13 top ten for about two more years. And the</p> <p>14 Morgan Keegan Clearing Group in Memphis would</p> <p>15 not clear him to go onto their buy list. And</p> <p>16 they had tiers, you know, for the broker.</p> <p>17 This is the first tier of funds we recommend</p> <p>18 to you based on our discipline, second tier,</p> <p>19 third tier. We couldn't even break into that.</p> <p>20 Didn't make me very happy.</p> <p>21 Q. And this clearing group was under</p> <p>22 the broker-dealer, I presume, and was</p> <p>23 reporting up through the chain?</p>

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1 A. I guess it was. When you say
2 "broker-dealer," I'm thinking about the
3 private client group and the sales group. And
4 this may be in some other division. I may be
5 sort of splitting hairs here.
6 MR. TERRY: But it was within
7 Morgan Keegan?
8 A. Oh, yeah.
9 MR. TERRY: All right.
10 Q. (BY MR. HUGGS:) To your
11 knowledge, Doug Harris was hired to promote
12 the generic funds. If he was paid to promote
13 the Kelsoe funds, would you have known about
14 that?
15 A. Well, he wasn't hired to promote
16 the Kelsoe funds, number one. And I don't
17 know, I don't think that he would have made
18 anything off the Kelsoe funds because they had
19 such a penetration, they didn't need Doug
20 Harris to go talk about them. Doug would come
21 back to me and say I have got brokers out
22 there that are asking me more information
23 about our funds because they are so loaded up

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1 with the Kelsoe funds, they have got to
2 diversify some way or another.
3 And he came back one day and said
4 he had a broker in Austin, Texas that said,
5 you know, all of the marketing information
6 that comes for the generic mutual funds comes
7 from Birmingham. Morgan Keegan is
8 headquartered in Memphis. All of the
9 information that comes out on Kelsoe comes
10 from Memphis, you know, that is Morgan
11 Keegan's headquarters. Why isn't the stuff on
12 your mutual funds, why isn't it coming out of
13 Memphis? And, you know, I asked about that
14 and just got nailed, not going to happen.
15 Q. Who did you ask?
16 A. Doug Edwards. His statement was
17 "Carter, we are not going to endorse your
18 funds." You know, my funds.
19 Q. During the time you were there,
20 did you use any of the Kelsoe funds within the
21 trust portfolios?
22 A. I did not. I was asked by trust
23 officers how could the intermediate term bond

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1 fund managed by Jim Kelsoe have so much
2 greater return than the fixed income fund
3 managed by John Norris or Mike Smith, and I
4 said because the Kelsoe fund is managed for
5 retail brokerage and the fixed income fund
6 managed by John Norris and Mike Smith is
7 manufactured for trust clients. Ours is a
8 very high quality fund, and I don't know what
9 quality that is over there.
10 And I mean I had to answer that
11 question all over the place. It's a good
12 question. He was providing such a great
13 return, you know, much larger than ours. But
14 I know what was in our fund, I don't know what
15 was in his fund. And I would not -- you
16 understand I'm walking a tightrope here. I
17 have to answer to Ken Alderman and Doug
18 Edwards and Allen Morgan over here at Morgan
19 Keegan. But I have got portfolio managers who
20 have trust clients over here (indicating) so
21 if I stand up and beat on the table and say we
22 are not putting any of those Kelsoe funds in
23 our trust accounts, I'm fired, I'm gone.

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1 So I came up with about the
2 softest approach I could take -- need a
3 hamburger?
4 MR. MCNEILL: He just ate one.
5 A. Oh. But honestly, I came up with
6 about the softest approach that I could take
7 and, you know, keep Morgan and Edwards happy
8 and Alderson, and at the same time tell the
9 trust managers and my portfolio managers what
10 I thought.
11 And one portfolio manager of mine
12 called me recently and told me he had been
13 being quizzed about some of the Kelsoe's funds
14 being in some trust accounts that he was the
15 portfolio manager on. And he said that the
16 trust officer directed him or the client
17 directed him, and he said and I told that
18 attorney that if I had ever put any of
19 Kelsoe's fund into one of our trust accounts
20 that Carter Anthony would have killed me. And
21 I wouldn't have killed him, but, you know,
22 they didn't fit trust accounts, no way.
23 Q. You previously said that you

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<p>1 2 EXAMINATION 3 UNDER 4 OATH 5 6 OF 7 8 CARTER E. ANTHONY, CFA 9 10 October 15, 2009 11 12 1901 6th Avenue North, Suite 2400 13 Birmingham, Alabama 35203 14 15 16 17 18 19 20 REPORTED BY: Teresa Turquitt Davis 21 Certified Court Reporter, 22 Registered Professional 23 Reporter and Notary Public</p>	<p>1 A P P E A R A N C E S (Continuing) 2 3 Mr. Peter J. Anderson 4 Partner 5 Sutherland, Asbill & Brennan, LLP 6 999 Peachtree Street, NE 7 Atlanta, Georgia 30309-3996 8 9 Mr. Rufus E. Elliott, III 10 Attorney at Law 11 Williams & Elliott 12 1924 29th Avenue South 13 Birmingham, Alabama 35209 14 15 16 17 18 19 20 21 22 23</p>
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<p>1 A P P E A R A N C E S 2 3 Mr. Mike Huggs 4 Director - Mississippi 5 Secretary of State's Office 6 Securities & Charities Division 7 Post Office Box 136 8 Jackson, Mississippi 39205 9 10 Mr. J. Randall McNeill 11 Alabama Securities Commission 12 Deputy Director 13 401 Adams Avenue, Suite 280 14 Montgomery, Alabama 36104 15 16 Mr. Robert D. Terry 17 Director 18 Securities and Business 19 Regulation Division 20 Karen C. Handel, Secretary of State 21 2 Martin Luther King, Jr. Drive, SE 22 Suite 802 West Tower 23 Atlanta, Georgia 30334</p>	<p>1 CARTER ANTHONY, 2 being first duly sworn, was examined and 3 testified as follows: 4 5 MR. MCNEILL: We are on the 6 record now. Mike Huggs is going to be doing 7 primarily the interview. He has been, for 8 lack of a better description, the quarterback 9 for all the states on this task force. 10 I would consider this more to be 11 just a formal interview or a sworn statement 12 than I would as to anything -- as to even in 13 regards to a deposition because obviously we 14 don't have anything really courtwise filed, 15 but we have investigations going. 16 I can't even keep track of all 17 the states, but we have got -- the obvious 18 ones are Mississippi, Georgia, Alabama, 19 Florida, Louisiana, Texas, Tennessee, 20 Missouri, Illinois, North Carolina, South 21 Carolina. 22 MR. ANDERSON: Arkansas. 23 MR. MCNEILL: Arkansas.</p>

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<p>1 Missouri, did I mention them? 2 MR. TERRY: Yes. 3 MR. MCNEILL: I think that is it. 4 Oklahoma is not in it. 5 MR. ELLIOTT: Kentucky. 6 MR. MCNEILL: Kentucky is in it. 7 MR. HUGGS: Thirteen total. 8 MR. MCNEILL: So those are all 9 the states that have gotten investigations 10 going into the Morgan Keegan RMK Fund matter. 11 These questions are just going to relate to 12 your knowledge when you were there at Morgan 13 Asset Management primarily, kind of get some 14 background obviously on you, Mr. Anthony. I 15 do not anticipate this is going to be like a 16 deposition that would take a very long time as 17 you would think. And with that, I'm going to 18 turn it over to Huggs. 19 20 EXAMINATION BY MR. HUGGS: 21 Q. Hey, Mr. Anthony. 22 A. Hey, Mike. 23 Q. What was your last position at</p>	<p>1 went to National Bank of Commerce, which is 2 now RBC Bank here in Birmingham, and I was in 3 charge of trust investments for that company 4 there. 5 Highlights were when I went 6 there, we had \$100 million in assets; and when 7 I left about 15 years later, we had \$950 8 million in assets, and I was individually 9 managing \$450 million in stocks and bonds. 10 I was approached by Ken Alderman 11 to come over to become the president and chief 12 investment officer of what was then the 13 Capital Management Group, which was part 14 trust, which was part of Regions Financial 15 Corp. 16 Q. Excuse me for interrupting. 17 About when was that? 18 A. October of 2000. The interview 19 process started in March. That was in October 20 of 2000. About six months later, Regions 21 bought Morgan Keegan. 22 At that time we had -- "we" the 23 company had to decide how to merge everything</p>
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<p>1 Morgan Asset Management? 2 A. I was president and chief 3 investment officer. 4 Q. Can you walk me through your 5 employment history leading up to you becoming 6 president of Morgan Asset Management? 7 A. All of it? 40 years of it? Do 8 you want that? 9 Q. How about the highlights? 10 A. I spent 15 years working for 11 Liberty National Life Insurance Company, Globe 12 Life Insurance Company and Torchmark 13 Corporation. They are the two companies being 14 part of Torchmark. I was involved in the 15 investment management for Liberty National, 16 Globe Life, United American managing 17 institutional investments and stock and bonds, 18 high quality stocks and bonds. 19 After being there 15 years, the 20 last three years I was in charge of investor 21 relations for Torchmark, which is still 22 involved in investments. 23 After being there 15 years, I</p>	<p>1 together. There were little bits and pieces 2 like Morgan Keegan had a trust department. It 3 was just a tiny little trust department. They 4 had Morgan Asset Management, which was an even 5 smaller asset management group. And I think 6 their trust department may have had \$100 7 million in assets, and Morgan Asset Management 8 may not have had that much, I don't know, I 9 have forgotten. 10 So what do we do with all those 11 groups there, and the decision was made to 12 bring trust in under Regions Trust, bring 13 Morgan Keegan Trust in under Regions Trust. 14 And what do you do with the Capital Management 15 Group and Morgan Asset Management Group -- the 16 Capital Management Group had 30 portfolio 17 managers and assistants. 18 Morgan Asset Management at Morgan 19 Keegan had, I think, six employees. And I 20 don't know how many dollars in assets, really. 21 They had three mutual funds, I know that, one 22 equity fund that we eventually did away with. 23 But through a number of meetings</p>

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<p style="text-align: right;">Page 9</p> <p>1 with Allen Morgan, Doug Edwards and Ken 2 Alderman, we decided to -- and I'm not exactly 3 sure whether we merged the Capital Management 4 Group into the Morgan Asset Management or vice 5 versa. But whatever, we took on the name 6 Morgan Asset Management. And I was there six 7 years, a little more than six years. 8 When Regions and AmSouth decided 9 to merge, once again, meetings were held about 10 who was going to do what. I was turned out to 11 pasture. I was asked to retire, which I had a 12 very nice severance package, both from the 13 trust department and from the corporation 14 itself. I had no problem with it, except part 15 of it didn't get paid. 16 So, you know, that sort of brings 17 you up to there. But on 12/31/06, that was my 18 last day, I was removed from any 19 responsibility in August of '06, and Brian 20 Sullivan took my place. 21 Is that comprehensive enough? 22 Q. That is great. Thank you. When 23 the mergers of Morgan Keegan Trust and the</p>	<p style="text-align: right;">Page 11</p> <p>1 Q. As president of Morgan Asset 2 Management, what were your responsibilities? 3 A. Well, my responsibilities were to 4 develop the best trust investments I could 5 possibly develop. What we had was not very 6 good. The portfolio manager was not very 7 good. One that I had to terminate, the best 8 job he has found so far is to be a used car 9 salesman. That is some of the kind of guys 10 that worked there. 11 And my job was to develop an 12 investment discipline that could be 13 communicated to the trust officers who were 14 the people that are on the point with the 15 customers and develop this investment 16 discipline the trust clients would totally 17 embrace, and to develop a communication system 18 to trust officers and to customers and to the 19 bank executive officers. And we wound up with 20 like a 10,000 person list of stuff going out 21 and going to California and places like that. 22 That really was what my responsibility was. 23 That is what I have done my entire life, high</p>
<p style="text-align: right;">Page 10</p> <p>1 Asset Management Group for Morgan Keegan and 2 Regions Financial groups took place, you 3 mentioned they had three funds. What were 4 those funds? 5 A. They had a high-yield bond fund, 6 an intermediate term bond fund, and I think 7 they called the stock fund a financial fund. 8 It was going away. They had no support for it 9 whatsoever. And I have forgotten how that was 10 handled, but they had to get rid of it. 11 Elkan Scheidt was managing it 12 side by side. When Kelsoe was managing the 13 bond funds, Elkan was managing the stock fund, 14 and it had no support. And I don't know 15 whether we liquidated it or whether we merged 16 it in our value fund. We did one or the 17 other. 18 And then Elkan left and became, I 19 think, the equity strategist for Morgan 20 Keegan. And they had two assistant guys 21 there, and one of them wound up working for 22 Kelsoe, or both of them did. One went from 23 Elkan to Kelsoe.</p>	<p style="text-align: right;">Page 12</p> <p>1 quality investments, which is what you want to 2 have in a trust department. 3 Q. The three funds that came on 4 board with the mergers, did they fall under 5 your Morgan Asset Management? 6 A. They fell on the organization 7 chart, but I had no management of them 8 whatsoever. I was charged with what 9 eventually wound up to be about 55 people 10 managing trust investments. I have forgotten 11 how many dollars we had under management, but 12 I had no control over the high-yield funds or 13 the intermediate term bond fund. That was a 14 product that was developed for retail to be 15 sold through the brokers. 16 I spent three or four years 17 trying to get the brokers to sell our mutual 18 fund, our generic mutual funds over here 19 (indicating), which was tough to do. But I 20 did get some of those placed. I didn't do 21 anything over here (indicating). 22 Q. What would be an example of the 23 generic mutual funds?</p>

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<p>1 A. We had a large cap growth fund, 2 large cap value fund, mid cap growth and 3 value, fixed income fund, limited maturity 4 fund, I think three money market funds. And I 5 say generic because, you know, there are 6 thousands of them if you look at the peer 7 groups.</p> <p>8 MR. TERRY: Those funds did not 9 exist? When you came in, you developed those 10 funds?</p> <p>11 A. The generic funds?</p> <p>12 MR. TERRY: Yes.</p> <p>13 A. No, they did exist when I got 14 there.</p> <p>15 MR. TERRY: Oh, they did. Okay. 16 They existed.</p> <p>17 A. They were put in place, I think, 18 in '95, I believe.</p> <p>19 MR. TERRY: Okay.</p> <p>20 A. And I got there in 2000.</p> <p>21 MR. TERRY: What were the names 22 of a couple of them? Not all of them.</p> <p>23 A. At the end -- and they have all</p>	<p>1 remember. Well, I didn't do it, but I did do 2 it this week, and a lot of things have come 3 back. And I'm sure that you are referring to 4 the organization chart, I think you are.</p> <p>5 Kelsoe was on my organization chart. He was 6 on there merely as a formality. I didn't put 7 him on there. The organization -- the first 8 organization chart that was delivered to me 9 came from Ken Alderman, who was head of trust 10 and asset management. He had ultimate 11 responsibility for trust and asset management, 12 and started many talks, but I'm going to 13 address both of those today.</p> <p>14 MR. TERRY: Would you mind 15 spelling that name just for the benefit of the 16 court reporter?</p> <p>17 A. A-L-D-E-R-M-A-N. And Jim being 18 on that org chart was simply a case of a 19 formality to have a place to put him. When we 20 were trying to make this decision about what 21 to do with the Capital Management Group and 22 Morgan Asset Management, we had probably three 23 meetings over a 12-month period of time. And</p>
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<p>1 been sold, they were the Regions Morgan Keegan 2 Select Mutual Funds. And within that you had 3 like the RMK large cap value, RMK large cap 4 growth.</p> <p>5 MR. TERRY: Okay.</p> <p>6 Q. (BY MR. HUGGS:) Although you 7 have said you were not responsible for the 8 management of the funds, did you ever have any 9 responsibilities for Mr. Kelsoe as the 10 manager?</p> <p>11 A. No. Now, I can add a little 12 color to that, if you like.</p> <p>13 MR. MCNEILL: We need color 14 today.</p> <p>15 A. Because I have been asked so many 16 questions about this and have talked to so 17 many people about it and answered so many 18 questions, a lot of things have come back to 19 my memory here that really had been gone.</p> <p>20 And when Rufus and I started 21 talking about this problem, I don't know, six 22 months ago or so, sometime like that, Rufus 23 said sit down and write down everything you</p>	<p>1 I don't like what Jim was managing. I mean, 2 everything I had ever done was you start with 3 treasuries.</p> <p>4 If you can't yet your yield 5 there, you go to agencies. And if you can't 6 get your yield there, you go to high grade 7 corporates. And if you can't get your yields 8 there, you don't buy anything, you sit on it a 9 while. I did not like the product at all.</p> <p>10 So in the last meeting that we 11 had after talking about it three times, 12 probably maybe 30 minutes, an hour each time, 13 I said I have an idea. What Ken is trying to 14 do is he's trying to get the Capital 15 Management Group closer to the Morgan Keegan 16 brokers and our mutual funds, that is what he 17 is trying to do.</p> <p>18 And what Allen Morgan and Doug 19 Edwards were trying to do was they sort of 20 wanted to find a place for Jim Kelsoe because 21 he didn't fit anything else that they had 22 there. So I said okay, we are all trying to 23 make a connection with the brokers because</p>

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<p style="text-align: right;">Page 17</p> <p>1 they are the salespeople, why don't we just 2 rename the Capital Management Group, Morgan 3 Asset Management, you've got 30 something 4 people in there, got our mutual funds in 5 there, and rename Kelsoe, Morgan Keegan Asset 6 Management, which is a more direct connection, 7 it keeps him more directly connected. And 8 they said nope, we want to have one variety, 9 so the vote was three to one.</p> <p>10 Q. So you being the one?</p> <p>11 A. Yeah. And then, you know, Jim 12 wound up on the org chart. I had no 13 responsibility for him. Time and time again I 14 was told by Morgan and Edwards leave Kelsoe 15 alone, he's doing what we want him to do, he's 16 also a little bit strange, he gets mad easy, 17 leave him alone; and I left him alone. I did 18 what I was told to do.</p> <p>19 Now, what Alderman -- what went 20 on with Doug and Ken, I don't know. They 21 talked an awful lot. Ken came down and said 22 they have negotiated a new contract with 23 Kelsoe, they are going to send it to you.</p>	<p style="text-align: right;">Page 19</p> <p>1 So I developed a management 2 situation where like Susan McClure, who is in 3 Mobile, just wonderful portfolio manager, 4 managed the office and then she did the 5 reviews for everybody down there and I 6 approved them.</p> <p>7 And then Charlie Murray, who was 8 a mutual fund manager, worked for Susan. And 9 because he did mutual funds, I did his review. 10 So I wound up with, I don't know, ten or 11 twelve reviews.</p> <p>12 MR. MCNEILL: Who did Kelsoe's 13 reviews?</p> <p>14 A. Well, I wrote up two of them, 15 completely a formality. They sent me a 16 review, I sat down at my desk, filled it out, 17 sent it to him and said here it is. I never 18 went to see him to talk about it like I did 19 everybody else.</p> <p>20 MR. MCNEILL: You said "they" 21 sent you. Who are "they"?</p> <p>22 A. Well, those things were generated 23 by the bank, by Human Resources, I guess, and</p>
<p style="text-align: right;">Page 18</p> <p>1 When it comes down here, sign it. 2 Well, it came to me, Ken said to 3 sign it, Allen Morgan had already signed it; I 4 signed it. I don't think I even knew what he 5 was making. I didn't really care. It wasn't 6 coming out of my payroll over here for my 7 portfolio managers. But that is a little -- 8 you didn't ask for that, but that is a little 9 additional to your question.</p> <p>10 Q. Okay.</p> <p>11 MR. MCNEILL: Where was he being 12 paid from, which group then?</p> <p>13 A. You know, I don't know. I had to 14 deal with salaries at that time of 30 15 something people from Little Rock to 16 Gainesville, Georgia and Mobile. And I was 17 directly involved in their salary increases, 18 their salaries, everything. I went and sat 19 down with them. I think maybe for the first 20 year, I did like 30 something reviews because 21 there was no management structure within our 22 group for them. I think the next year I said 23 I can't do 30 reviews.</p>	<p style="text-align: right;">Page 20</p> <p>1 I think I may have done two of them, and then 2 no more.</p> <p>3 MR. TERRY: Would those have been 4 sent to you through via e-mail or interoffice 5 mail?</p> <p>6 A. Interoffice mail.</p> <p>7 Q. (BY MR. HUGGS:) Why did you not 8 treat him like you did the other reviews, just 9 send it to him and not visit with him like you 10 did your other employees?</p> <p>11 A. He was not my guy. I was doing 12 what Alderman and Edwards said to do and Human 13 Resources said to do and, you know, he was not 14 one of my guys.</p> <p>15 Q. What was Mr. Alderman's title?</p> <p>16 A. He was president and chief 17 executive officer of Regions Morgan Keegan 18 Trust and he was chief executive officer of 19 Morgan Asset Management. And I think he was 20 vice chairman of the Trust Company Board.</p> <p>21 Q. Okay. Doug Edwards, at this time 22 when you were told that Mr. Kelsoe was not 23 your guy --</p>

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<p style="text-align: right;">Page 21</p> <p>1 MR. ANDERSON: Have we 2 established when that was? 3 MR. HUGGS: I would like to know. 4 MR. MCNEILL: I would like to 5 know that, too. 6 A. It was all during the time that 7 we were there. 8 Q. From day one? 9 A. Pardon? 10 Q. From day one in 2000? 11 A. Yeah. Jim, for lack of a better 12 word, was sort of like on an island out there. 13 And whenever he had -- whenever he wanted 14 something or needed something, he went to 15 Doug. And then if it was something I could 16 furnish, Doug would call me. But, you know, 17 other than that, I didn't have any 18 responsibility for him. 19 And, you know, you can look at it 20 on the other side. During that period of 21 time, he was the best money manager, fixed 22 income manager in the country, based on the 23 numbers. He was just knocking the investment</p>	<p style="text-align: right;">Page 23</p> <p>1 publicly fighting in the halls. 2 Ken didn't take me up there. 3 Because, see, I succeeded in his position, so 4 these people worked for him while they worked 5 for me so he didn't take me to Little Rock to 6 meet them. 7 Q. During your interviews, did Mr. 8 Alderman explain to you that Mr. Kelsoe was 9 outside of your management? 10 A. We didn't get Morgan Keegan. 11 Let's see. We acquired Management Group in 12 April of 2001, and I went to work in October 13 of 2000. So Kelsoe and Morgan Keegan wouldn't 14 have been discussed during my interviews. 15 Q. Okay. I've got you. When Morgan 16 Keegan was acquired, you then had discussions 17 that Mr. Kelsoe would not be under your 18 supervision or management? 19 A. Leave him alone. 20 Q. Okay. 21 A. He's a strange guy, leave him 22 alone. 23 Q. Is there a specific meeting or</p>
<p style="text-align: right;">Page 22</p> <p>1 returns dead. 2 Q. When you were recruited to come 3 on board as president of Morgan Asset 4 Management or -- 5 A. Capital Management Group. The 6 CMG we call it. 7 Q. The original group, was that 8 discussed with you? 9 MR. ANDERSON: What was that? 10 Q. I'm sorry. Was the org chart and 11 the structure, the personnel that you would 12 supervise or manage or that would report to 13 you minus Mr. Kelsoe, was that discussed with 14 you, or did that -- 15 A. Oh, yeah. 16 Q. -- come later? 17 A. Oh, sure, yeah. No. I mean, we 18 discussed that during the interviews. 19 Immediately following, Ken took me to meet 20 some of them. We had a manager who shouldn't 21 have been a manager in Little Rock and we had 22 a portfolio manager who should have been the 23 manager in Little Rock, and they were like</p>	<p style="text-align: right;">Page 24</p> <p>1 was that explained to you with a memo or -- 2 A. It probably occurred in the first 3 meeting and it occurred times after that, to 4 just, you know, leave him alone, which is 5 fine. 6 I had a trust office in Memphis. 7 Joe Morrison was in charge of that trust 8 office. Jim Kelsoe and his group did not come 9 under Jim Morrison. I had a trust office in 10 Mobile. Susan McClure was in charge of that, 11 Charlie Murray worked in the same office with 12 Susan McClure. Same sort of deal in 13 Birmingham, Montgomery, Little Rock. In 14 Memphis, Joe Morrison was down there. Kelsoe 15 was down there except they were on different 16 floors for a while. There was no merger, no 17 meshing of talent there. I was in charge of 18 Joe Morrison, not Jim Kelsoe. 19 MR. MCNEILL: So he was really an 20 island to himself then? 21 A. That is a good way to put it. 22 Q. (BY MR. HUGGS:) The other fund 23 managers, how many other fund managers?</p>

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<p style="text-align: right;">Page 25</p> <p>1 A. Mutual fund? 2 Q. Mutual fund managers, were they 3 under Morgan Asset Management? 4 A. Well, let's see. What did I read 5 out to you? Nine or eleven funds. And some 6 of them we had to double up on because our 7 budget wouldn't allow us to manage funds like 8 you should. It will take a second. 9 Q. Approximate. 10 A. I guess I probably had, I would 11 say, six mutual fund managers. And from time 12 to time because we lost people, I had to step 13 in and manage funds myself. I had to manage 14 the large cap value fund for probably about a 15 year. And the fixed income fund, limited 16 maturity fund for less than a year, which it 17 was because we lost somebody and I had nobody 18 to replace them. 19 Q. Can you describe your supervision 20 or management of those portfolio managers? 21 A. I did. 22 MR. MCNEILL: I think he wants to 23 know like what kind of steps did you go</p>	<p style="text-align: right;">Page 27</p> <p>1 And then I usually featured one 2 of the mutual fund managers or one of the 3 other senior people. This was my group. 4 Kelsoe was never on there. He may have gotten 5 on there one time just to talk about how he 6 did what he did. His people never got on our 7 conference call. 8 I had an annual meeting once a 9 year, really good annual meeting. I had 10 economists and strategists and analysts from 11 New York and wherever to come down and speak 12 to my group for two and a half days. And 13 Kelsoe came to one meeting, the first meeting 14 like in the middle of Monday afternoon because 15 Doug Edwards was flying down here for 16 something and Kelsoe hopped on the plane with 17 him and then left and went back with Doug. 18 That is the only time he attended anything 19 that I had. He was not my responsibility. He 20 didn't fit in with my group and, you know, I 21 don't know how I can make that any plainer. 22 Q. Do you know who did Mr. Kelsoe's 23 performance appraisals?</p>
<p style="text-align: right;">Page 26</p> <p>1 through on the supervision. 2 Q. To supervise those fund managers? 3 A. I did their reviews. I went and 4 sat down with them with their reviews and went 5 over step by step. I handled their raises. I 6 did that myself. You had to do this review 7 and then you had to propose a raise and then 8 it had to be approved by Alderman. 9 And I handled those personally. 10 I went to see them at least -- in person at 11 least every quarter and I had a meeting with 12 them, sat down with them. I frequently went 13 over their portfolios to make sure they 14 weren't getting too far outside something I 15 wanted them to be doing. We had a Monday 16 afternoon conference call 3:00 in the 17 afternoon every Monday. I had -- let's see. 18 I had our chief economist who was managing a 19 fixed income fund and some money market funds 20 as well -- well, he was doing money market the 21 last -- I had him speak first. Then we went 22 around the horn and let other people make 23 comments they wanted to make.</p>	<p style="text-align: right;">Page 28</p> <p>1 A. Well, I did two of them, like I 2 said, just because they were sent to me. 3 MR. TERRY: When you say -- 4 Q. Other than those? 5 MR. TERRY: I'm sorry. When you 6 say they were sent to you, were they sent to 7 you in a completed -- as completed performance 8 appraisals, here are the questions, here are 9 the answers, put them on your form? 10 A. No. It was just like, you know, 11 a form that -- I have really forgotten what 12 they look like, but it seems like to me you 13 checked the box on performance, good, 14 excellent or something like that, and you 15 check the box and maybe write some comments 16 in. It came from Human Resources. Jim was 17 the number one manager in the country, how do 18 I say he's doing a poor job? 19 Q. So you checked the boxes and you 20 wrote comments? 21 A. Yeah. Uh-huh. 22 MR. MCNEILL: May I chime in with 23 a question, Mike, real quick? These</p>

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<p style="text-align: right;">Page 29</p> <p>1 performance appraisals, were they done yearly, 2 biyearly? 3 A. Annually. 4 MR. MCNEILL: Can you remember -- 5 I know this is a tough one. Can you remember 6 what years from 2001 to 2006 the ones that you 7 did? 8 A. It seems like it was 2004 and '5. 9 And I say that only because Peter sent me 10 copies of them, and I think that is right. 11 MR. MCNEILL: Okay. Thank you. 12 Q. (BY MR. HUGGS:) Can you remember 13 any comments you did write -- 14 A. No. 15 Q. -- on those? 16 A. Maybe good job. 17 Q. Okay. 18 A. He was doing a good job. If I 19 had said bad job, I would have been looking 20 for a job. 21 MR. TERRY: Who did you report to 22 directly? Who did your performance reviews? 23 A. Ken Alderman.</p>	<p style="text-align: right;">Page 31</p> <p>1 30 something years, pretty thick. 2 My guess is that Jim's file had 3 those two performance reports in it and that 4 is all. I had nothing, no background, 5 nothing. And had no need to. And where it 6 was kept, if they were doing one, I don't 7 know. In a brokerage firm, if you are making 8 money, you don't need a file. 9 Q. (BY MR. HUGGS:) You described 10 how you supervised the fund managers other 11 than Kelsoe that were under you. Do you know 12 how or whom, if anyone, supervised or managed 13 Mr. Kelsoe in that matter? 14 A. Well, supervision and overseeing 15 might be two different things. As I said 16 earlier, Alderman had the ultimate 17 responsibility for Asset Management Trust. He 18 reported to Doug Edwards. If Jim wanted 19 anything, he called Doug Edwards. So you 20 really have to sort of say that Jim really 21 answered to Doug. 22 Q. Mr. Alderman reported to Doug 23 Edwards?</p>
<p style="text-align: right;">Page 30</p> <p>1 MR. TERRY: Alderman. 2 Q. (BY MR. HUGGS:) Other than the 3 two times that you did Mr. Kelsoe's 4 performance appraisal, do you know who, if 5 anybody, did any other performance appraisals? 6 A. I don't know. 7 Q. Do you even know that any other 8 performance appraisals were done? 9 A. No. 10 MR. TERRY: Were Mr. -- and I'm 11 sorry for interjecting here, but something 12 comes to mind. If you are quiet for a minute, 13 I may jump in. 14 Employees typically have 15 personnel files at companies. Was Kelsoe's 16 personnel file maintained with your other 17 employees' files or was that physically 18 maintained, kept somewhere else, if you know. 19 A. He may have had a file with me, 20 but as best I remember, there was nothing 21 in -- I mean, it was simply because he was on 22 the org chart and I had a file on everybody. 23 Files like Charlie Murray's who had been there</p>	<p style="text-align: right;">Page 32</p> <p>1 A. Uh-huh. 2 Q. And we may have asked already, 3 but we may have gotten off that question, Doug 4 Edwards' title? 5 A. He was the president and CEO of 6 Morgan Keegan. 7 Q. Did you have any routine 8 communications with Regions financial 9 management executives or board? 10 A. No, not routine. Carl Jones and 11 I have known each other for probably 40 12 something years, and he was the chairman and 13 CEO of Regions. But in terms of business 14 communications, I took a couple of trips, an 15 analyst conference, something like that. I 16 came back and wrote it up in detail, and I 17 would send Carl and Rick a copy of it just 18 because they were up on the 18th floor and I 19 wanted them to know what I had learned. But 20 routine, no. 21 Q. Are you familiar with how 22 Mr. Kelsoe's fund trades were placed? And by 23 that, I mean, who placed orders.</p>

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<p>1 A. No.</p> <p>2 Q. Are you familiar with who placed</p> <p>3 orders for the other fund managers?</p> <p>4 A. Absolutely. I set it up.</p> <p>5 Q. Okay. Did they use a particular</p> <p>6 desk at Morgan Keegan?</p> <p>7 A. Generic funds?</p> <p>8 Q. Yes, sir.</p> <p>9 A. The generic funds had a trading</p> <p>10 desk over here across the street and every</p> <p>11 portfolio -- I'm sorry, at the old Regions</p> <p>12 building across the street. On the --</p> <p>13 MR. ELLIOTT: That is in</p> <p>14 Birmingham.</p> <p>15 A. Yeah. What floor was it, 14th</p> <p>16 floor -- I have been gone two and a half</p> <p>17 years. I think it was the 14th floor.</p> <p>18 When I got here, we had trading</p> <p>19 being done in Montgomery, Birmingham and</p> <p>20 Little Rock. It's the stupidest thing you</p> <p>21 could ever find in an institutional investment</p> <p>22 firm. I centralized it in Birmingham. And</p> <p>23 all of the trades for the generic funds,</p>	<p>1 Q. Was not supposed to be.</p> <p>2 A. He may have gotten in a</p> <p>3 conversation with some brokers in a building,</p> <p>4 but he was hired to wholesale the generic</p> <p>5 mutual funds because we couldn't get a foot in</p> <p>6 the door. These guys were using so much of</p> <p>7 the high-yield product, we couldn't get a foot</p> <p>8 in the door, and so we hired Doug to go do</p> <p>9 that.</p> <p>10 Q. When you say "these guys were</p> <p>11 using so much of the high-yield product,"</p> <p>12 could you describe who you are talking about?</p> <p>13 A. Morgan Keegan brokers.</p> <p>14 Q. The retail brokers?</p> <p>15 A. Yeah.</p> <p>16 Q. Okay.</p> <p>17 MR. TERRY: Do you know if they</p> <p>18 were selling other stock funds, other funds</p> <p>19 that you were trying to broker?</p> <p>20 A. Oh, yeah.</p> <p>21 MR. TERRY: What funds were they</p> <p>22 generally selling?</p> <p>23 A. I don't know. They had an office</p>
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<p>1 stocks and bonds were done through three or</p> <p>2 four guys over there in a trading area. I</p> <p>3 centralized the whole thing. No trading for</p> <p>4 Jim Kelsoe's funds. He did his own trading.</p> <p>5 How he did it and who he did it with, I don't</p> <p>6 know.</p> <p>7 Q. Okay. Do you know Doug Harris?</p> <p>8 A. I do.</p> <p>9 Q. Okay. Did Mr. Harris work for</p> <p>10 Morgan Asset Management?</p> <p>11 A. He did.</p> <p>12 Q. Was he under your management?</p> <p>13 Did he report to you, for instance?</p> <p>14 A. I don't know who Doug reported</p> <p>15 to. He was a salesman. He was a wholesaler</p> <p>16 for the generic mutual funds, and I don't know</p> <p>17 who he reported to. I think he did</p> <p>18 wholesaling for maybe less than two years.</p> <p>19 Q. Was he also a wholesaler for the</p> <p>20 Kelsoe funds?</p> <p>21 A. Wasn't supposed to be.</p> <p>22 Q. I'm sorry, say that --</p> <p>23 A. He was not supposed to be.</p>	<p>1 in Memphis that cleared funds for them to use,</p> <p>2 and they had a process by which they cleared</p> <p>3 them, you know, returns for the last year or</p> <p>4 the last three years, the last five years,</p> <p>5 size of fund, length of time a manager has</p> <p>6 been there. And I think that we finally broke</p> <p>7 into that maybe in 2005 or something after</p> <p>8 about three or four years of trying.</p> <p>9 Charlie Murray in Mobile had the</p> <p>10 number one mid cap growth fund in the country</p> <p>11 in the year 2000, which was a terrible year</p> <p>12 for the stock market. And then he was in the</p> <p>13 top ten for about two more years. And the</p> <p>14 Morgan Keegan Clearing Group in Memphis would</p> <p>15 not clear him to go onto their buy list. And</p> <p>16 they had tiers, you know, for the broker.</p> <p>17 This is the first tier of funds we recommend</p> <p>18 to you based on our discipline, second tier,</p> <p>19 third tier. We couldn't even break into that.</p> <p>20 Didn't make me very happy.</p> <p>21 Q. And this clearing group was under</p> <p>22 the broker-dealer, I presume, and was</p> <p>23 reporting up through the chain?</p>

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<p>1 A. I guess it was. When you say 2 "broker-dealer," I'm thinking about the 3 private client group and the sales group. And 4 this may be in some other division. I may be 5 sort of splitting hairs here. 6 MR. TERRY: But it was within 7 Morgan Keegan? 8 A. Oh, yeah. 9 MR. TERRY: All right. 10 Q. (BY MR. HUGGS:) To your 11 knowledge, Doug Harris was hired to promote 12 the generic funds. If he was paid to promote 13 the Kelsoe funds, would you have known about 14 that? 15 A. Well, he wasn't hired to promote 16 the Kelsoe funds, number one. And I don't 17 know, I don't think that he would have made 18 anything off the Kelsoe funds because they had 19 such a penetration, they didn't need Doug 20 Harris to go talk about them. Doug would come 21 back to me and say I have got brokers out 22 there that are asking me more information 23 about our funds because they are so loaded up</p>	<p>1 fund managed by Jim Kelsoe have so much 2 greater return than the fixed income fund 3 managed by John Norris or Mike Smith, and I 4 said because the Kelsoe fund is managed for 5 retail brokerage and the fixed income fund 6 managed by John Norris and Mike Smith is 7 manufactured for trust clients. Ours is a 8 very high quality fund, and I don't know what 9 quality that is over there. 10 And I mean I had to answer that 11 question all over the place. It's a good 12 question. He was providing such a great 13 return, you know, much larger than ours. But 14 I know what was in our fund, I don't know what 15 was in his fund. And I would not -- you 16 understand I'm walking a tightrope here. I 17 have to answer to Ken Alderman and Doug 18 Edwards and Allen Morgan over here at Morgan 19 Keegan. But I have got portfolio managers who 20 have trust clients over here (indicating) so 21 if I stand up and beat on the table and say we 22 are not putting any of those Kelsoe funds in 23 our trust accounts, I'm fired, I'm gone.</p>
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<p>1 with the Kelsoe funds, they have got to 2 diversify some way or another. 3 And he came back one day and said 4 he had a broker in Austin, Texas that said, 5 you know, all of the marketing information 6 that comes for the generic mutual funds comes 7 from Birmingham. Morgan Keegan is 8 headquartered in Memphis. All of the 9 information that comes out on Kelsoe comes 10 from Memphis, you know, that is Morgan 11 Keegan's headquarters. Why isn't the stuff on 12 your mutual funds, why isn't it coming out of 13 Memphis? And, you know, I asked about that 14 and just got nailed, not going to happen. 15 Q. Who did you ask? 16 A. Doug Edwards. His statement was 17 "Carter, we are not going to endorse your 18 funds." You know, my funds. 19 Q. During the time you were there, 20 did you use any of the Kelsoe funds within the 21 trust portfolios? 22 A. I did not. I was asked by trust 23 officers how could the intermediate term bond</p>	<p>1 So I came up with about the 2 softest approach I could take -- need a 3 hamburger? 4 MR. MCNEILL: He just ate one. 5 A. Oh. But honestly, I came up with 6 about the softest approach that I could take 7 and, you know, keep Morgan and Edwards happy 8 and Alderson, and at the same time tell the 9 trust managers and my portfolio managers what 10 I thought. 11 And one portfolio manager of mine 12 called me recently and told me he had been 13 being quizzed about some of the Kelsoe's funds 14 being in some trust accounts that he was the 15 portfolio manager on. And he said that the 16 trust officer directed him or the client 17 directed him, and he said and I told that 18 attorney that if I had ever put any of 19 Kelsoe's fund into one of our trust accounts 20 that Carter Anthony would have killed me. And 21 I wouldn't have killed him, but, you know, 22 they didn't fit trust accounts, no way. 23 Q. You previously said that you</p>

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<p>1 didn't know what was in Kelsoe's funds, you 2 knew what was in your files. Did you ever try 3 to find out or investigate what the makeup of 4 the Kelsoe funds were? 5 A. I can almost ask you why would I 6 have done that? I can throw it back at you. 7 Why would I have done that? During the time 8 that I was there, his returns were the best in 9 the country. I had been told to leave him 10 alone. He was out there on the corner of the 11 building with his staff around him. I don't 12 know anything about junk bonds. I have never 13 bought a bond that turned into junk. I have 14 never bought a junk bond on the front end, so, 15 no, I did not investigate. I was told not to. 16 I was told to leave him alone. I did. 17 Q. Up until December of '06, your 18 last day, you did not allow any Kelsoe funds 19 to be put in trust accounts; is that correct? 20 A. I can't say I didn't allow it. I 21 didn't want it and I didn't know if they went 22 in there. But I have learned since I left 23 that Kelsoe funds were used in trust accounts.</p>	<p>1 MR. TERRY: Do you know if there 2 was any effort -- and if you don't know, that 3 is fine, I'm just curious. I'm not sure how 4 much you know about the way the bank side 5 operated -- if there were efforts to market 6 Kelsoe's funds directly to the trust officers, 7 so that they would -- 8 A. No, there weren't. I would say 9 not any direct efforts. I think just because 10 Kelsoe was in the same building with Joe 11 Morrison's group, I think, I don't know, I 12 think they may have used some of his funds in 13 their trust accounts. That is in Memphis. 14 But, you know, I think by and large my 15 portfolio managers would argue with a trust 16 officer about doing that. 17 MR. TERRY: Okay. 18 Q. (BY MR. HUGGS:) As president of 19 Morgan Asset Management, did you have the 20 authority to question a particular trust 21 officer's use of the Kelsoe funds in any trust 22 account? 23 A. Not a trust officer, no, I could</p>
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<p>1 Now, if I had been able to say outwardly do 2 not do this, then you could say I didn't allow 3 it, but I also would have been shown the door. 4 MR. TERRY: Those decisions to 5 put those in, that would have been made by 6 portfolio managers? 7 A. Well, the portfolio managers knew 8 that they should not be using those funds in 9 the trust accounts. 10 MR. TERRY: Right. 11 A. Now, a trust officer can talk to 12 a client, can talk to you, and you can say 13 Collins, put -- you know, put 10 percent of my 14 portfolio into the so-and-so Kelsoe fund. And 15 Collins should say I'm going to send you a 16 letter of direction that you need to sign and 17 send back to me, and then I will buy that 18 amount in your portfolio. 19 Now, whether the trust officers 20 did that or not, I don't know. But the 21 portfolio managers took orders from the trust 22 officers or the client. The trust officer was 23 on the front of that relationship.</p>	<p>1 request a portfolio manager. 2 Q. Who would have been responsible 3 for supervising the trust officer's use of the 4 Kelsoe funds? 5 A. Well, it would come from Ken down 6 to his regional presidents. He had one in 7 Little Rock and one in Memphis, and maybe one 8 in Florida -- one in Georgia that covered 9 Florida, and then down to the office managers. 10 They would be the supervisory type. I had no 11 supervision over any trust officers. 12 In some cities, my portfolio 13 managers couldn't even talk to the client. 14 And if they had a meeting with the client, a 15 trust officer had to be there. What does a 16 client really want to talk about? His return. 17 Q. So the trust officer would choose 18 the particular investments? 19 A. Well, the trust officer would say 20 primarily I have talked with the client and 21 the client wants to be 50 percent fixed and 22 40 percent equity and 10 percent cash. And 23 then he would turn it over to the portfolio</p>

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<p style="text-align: right;">Page 45</p> <p>1 manager. And within the discipline I was 2 telling you earlier that we built, we built a 3 screening process where we started off with 4 something like 1,200 stocks. And through 5 probably a half a dozen screens, we brought it 6 down to 200 stocks on a buy list. Portfolio 7 managers could not buy another stock outside 8 that unless directed by a client. 9 We did the same thing on bonds 10 pretty much using that same stock screening 11 list, but we brought it down to, I think, 75 12 bonds, corporates and agencies and treasuries. 13 And the portfolio managers could pick from 14 that, and that is it. And, of course, if the 15 client came in and say buy this for me, again, 16 it was the letter that they had to execute to 17 get involved. 18 Q. Did you have a similar list of 19 mutual funds that could be used? 20 A. Yeah, and it was really run by 21 Trust. You know we managed our mutual funds, 22 but we actually had trust officers who would 23 use somebody else's mutual funds instead of</p>	<p style="text-align: right;">Page 47</p> <p>1 created and were refined by whom? 2 A. The head of research of equity 3 research and then -- 4 Q. Where was equity research, under 5 Morgan Asset Management? 6 A. Oh, yeah. It was within Morgan 7 Asset Management. 8 Q. Okay. 9 A. And then we had -- I don't think 10 we had a head of fixed income research. I 11 think the fixed income issues just came out of 12 the stock listing. But we had a gentleman 13 that watched it very closely and made it work, 14 but he was not head of equity research or 15 fixed income research. He was our strategist. 16 Q. So you had an approved list of 17 stocks, an approved list of bonds, which 18 equity research refined -- 19 A. Uh-huh. 20 Q. -- and created -- 21 A. Maintained. 22 Q. -- and maintained. Once again, 23 was there an approved list of mutual funds</p>
<p style="text-align: right;">Page 46</p> <p>1 ours. And, you know, sometimes the other 2 funds had better returns. I mean, they 3 weren't supposed to load them up with 4 proprietary funds. They were supposed to put 5 funds in there that fit the client. So the 6 trust department had golly, I don't know what 7 size list, and they were the American funds 8 and American Century and Fidelity and 9 Federated and for Pemco, and I have forgotten 10 who else, it was a big list and long list, but 11 it was run by the Trust Department and Ken was 12 the chairman of that group. 13 Q. Okay. 14 A. I merely sat in on that meeting. 15 Q. You were describing the stock 16 approved, for lack of a better word, list, and 17 the bond approved list for use in trust 18 accounts? 19 A. Uh-huh. 20 Q. Now, these lists were for your 21 portfolio managers -- 22 A. Right. 23 Q. -- to use? Those lists were</p>	<p style="text-align: right;">Page 48</p> <p>1 that you -- 2 A. There was. 3 MR. ANDERSON: I'm sorry, I 4 couldn't hear what you said. 5 A. Yes. There was an approved list 6 of mutual funds. 7 Q. Who chose that list? 8 A. Well, it was a rotating kind of 9 thing. And the last I remember, there was a 10 guy in Huntsville who was like the Huntsville 11 office manager. His name was Ken Griffin. 12 And Ken Alderman appointed him as the head of 13 the mutual fund selection list. And we had a 14 quarterly meeting where Ken Griffin did some 15 research and updated the list and he came down 16 from Huntsville to make a presentation. 17 And, like I say, I was a 18 participant. I would sit there and say, you 19 know, why do you have this fund in here, we 20 have got \$10 million under management and you 21 have got \$2,000 in that fund, it's just a 22 waste of time, put it somewhere else. It 23 didn't make any difference, I got outvoted,</p>

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<p>1 somebody would like the name of the fund or 2 something. 3 Q. Was Mr. Kelsoe's funds on the 4 approved list of funds? 5 A. That is a really good question 6 and I don't remember. I don't think so, but I 7 do not remember. I don't remember ever 8 talking about them. And that is a good 9 question and I'm sorry I can't remember. 10 Q. Sure. 11 A. But I will tell you that I don't 12 think so. 13 Q. Like the stock list and the bond 14 list and, I mean, the approved list, you 15 mentioned that your portfolio managers could 16 not sell or put -- I'm sorry, they could not 17 use a stock or bond that was not on that list 18 unless they were directed by the client or -- 19 A. Right. 20 Q. -- the customer. Would that have 21 held true for the mutual fund list as well? 22 A. Should have, but I don't know. 23 Q. Do you recall any discussions in</p>	<p>1 think it's the best in the country, then you 2 need to stick to it. And it was a very good 3 discipline. In 2005, we had the best returns 4 Regions had ever had. 5 Q. So for portfolio managers working 6 on the trust accounts, did you have the bottom 7 line say-so of their adherence to the select 8 list, approved list? 9 A. For portfolio managers? 10 Q. Yes. 11 A. Or for the list itself? 12 Q. For the portfolio managers, 13 either adhering to the approved list or 14 straying from the select list? 15 A. Well, I was the final say-so. 16 But like in Mobile, Susan McClure was supposed 17 to be following what those PMs were doing down 18 there. And she could get them back in line if 19 they got out of line. 20 John Haggler in Montgomery, Craig 21 Harris up here, Hoyt Powell out of Little 22 Rock. They were the ones that were 23 supervising those guys on the day-to-day</p>
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<p>1 the -- 2 A. That is a trust question. That 3 is not my question. Excuse me. 4 Q. If a portfolio manager used some 5 stocks or bonds that weren't on that list, who 6 would come down on them? 7 A. Well, it would probably have been 8 me. I had a portfolio manager here in 9 Birmingham that bought a stock and then 10 sometime after that realized that it wasn't on 11 the approved list, came down and told me. And 12 he said what do you want me to do about it, 13 and I said well, it's not approved, it's up to 14 you, it's not approved. I said you can try to 15 ride it out here or you need to sell it today. 16 And it seems like to me it had 17 gone down a buck or two since he bought it, 18 which is what always happens when you do 19 something you shouldn't do. And so if I 20 remember correctly, he went and sold it. 21 Because we had to have a discipline and when 22 you go talk to a client and say this is our 23 discipline and this is how we do this and we</p>	<p>1 basis. 2 MR. ANDERSON: Just by way of 3 example, Susan Haggler, you have mentioned? 4 A. Susan McClure in Mobile. 5 MR. ANDERSON: Was she a 6 portfolio manager or was she a trust officer? 7 A. She was a portfolio manager. She 8 was the manager of the office in Mobile. 9 Q. (BY MR. HUGGS:) So when I asked 10 you earlier about so theoretically, a 11 portfolio manager should not be selling a 12 stock not on the list, should not be using a 13 bond not on the approved list, and should not 14 be using a fund, mutual fund, that wasn't on 15 the approved list, but then you said that was 16 a question for trust? 17 A. Uh-uh, no. We had a list. We 18 had an approved list of stocks and bonds that 19 was developed, maintained out of Morgan Asset 20 Management. Mutual funds were developed and 21 maintained by Ken Griffin or whoever is doing 22 it now within trust. Ken was a senior trust 23 officer.</p>

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<p>1 MR. TERRY: So Ken Griffin from 2 Huntsville, was the trust officer with -- is 3 that the bank's trust department? 4 A. Yeah, that is the old Regions. 5 MR. TERRY: Okay. 6 Q. (BY MR. HUGGS:) Thank you, that 7 cleared that up, that became confusing. 8 MR. TERRY: Let me ask, I'm a 9 little confused about the order of the 10 reporting structures. Let me make sure I have 11 this right. If I am wrong, let me know. You 12 were president of Morgan Asset Management, you 13 reported to Ken Alderman. Ken Alderman was 14 president and CEO of Regions Morgan Keegan 15 Trust. He reported, I believe, you said to 16 Doug Edwards, who was head of Morgan Keegan? 17 A. Right, yeah. 18 MR. TERRY: But Ken Alderman in 19 charge of the bank trust department? 20 A. Well, it's one trust department. 21 MR. TERRY: Right. 22 A. It was the Regions Morgan Keegan 23 Trust Department.</p>	<p>1 foggy on this. I'm not a lawyer. 2 MR. TERRY: Sure. 3 A. It's my job to try to manage 4 money for people and make money for them and 5 keep them happy and hold their hand a lot, 6 too. So I'm really sort of foggy on this, but 7 he used to tell this at meetings. We had like 8 some annual meetings and he would say stuff 9 like well, you know, we really aren't part of 10 Morgan Keegan, but it works better for Morgan 11 Keegan if we are over there; we are not 12 legally part of Morgan Keegan. And honestly, 13 that is as far as I can go, but since you 14 mentioned it, it came to my mind. 15 MR. TERRY: Okay. 16 A. And I -- that sort of begs 17 another question, okay, was Kelsoe in Morgan 18 Keegan or was he in Regions Financial Corp? 19 Legally, where was he? And I don't know. I 20 really don't know. 21 MR. TERRY: Okay. 22 A. I know that I went to work for 23 the Capital Management Group and Regions</p>
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<p>1 MR. TERRY: But it was the -- 2 A. The whole thing. 3 MR. TERRY: The trust department 4 operating under the bank -- were the trust 5 officers registered security salespeople with 6 Morgan Keegan? 7 A. No, no, no. We are talking about 8 a trust department, maybe a loose term, a 9 trust company. 10 MR. TERRY: Right. 11 A. And you asked a good question. 12 And something that is really foggy in the back 13 of my mind because I have been gone two and a 14 half years, and this really didn't bother me 15 very much, I didn't think much about it, but 16 Ken used to tell us in meetings that we were 17 part of Morgan Keegan and for reporting 18 purposes only, that we were -- the charter was 19 still held by Regions Financial Corp and we 20 were still in the bank. But we were over here 21 in Morgan Keegan reporting through them, which 22 gave Morgan Keegan a better revenue and net 23 income line. And, excuse me, but I'm really</p>	<p>1 Financial Corp, and I didn't ask for any of 2 the rest of this. 3 MR. TERRY: Then when Regions 4 bought Morgan Keegan then the structure 5 changed to what you described earlier? 6 A. Yeah. 7 MR. TERRY: All right. Yeah, 8 it's confusing to me how your reporting chain 9 could end with Morgan Keegan and intermediate 10 in that reporting chain is someone who is in 11 charge of a bank trust department, which 12 should have been separate from Morgan Keegan. 13 I don't understand that. 14 A. Well, now, see, but the trust 15 department went over to Morgan Keegan. See, 16 Morgan Asset Management was under the bank 17 trust department. 18 MR. TERRY: Was Morgan Keegan 19 chartered as a bank? 20 A. No, a brokerage firm. 21 MR. TERRY: Right. That is what 22 I thought. 23 A. But Ken and Doug and Allen</p>

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1 figured out that -- probably that Morgan
2 Keegan would look better if it had trust
3 revenues and earnings. A trust department's
4 profit margin is 40 percent of revenue. And
5 who wouldn't like to have that? So they
6 figured out it would be better to take
7 Regions' Trust and put it in over in Morgan
8 Keegan and called it Regions Morgan Keegan
9 Trust. And Morgan Asset Management was part
10 of trust. We were the Capital Management
11 Group, which was part of trust. But then when
12 the merger came about, we became Morgan Asset
13 Management and we went over -- as part of
14 trust, we were over in Morgan Keegan.
15 MR. TERRY: Do you have any
16 idea -- you said that 40 percent margin. Do
17 you have any idea of what that equated to in
18 terms of numbers, dollars, for whatever years
19 you can recall?
20 A. I can't recall.
21 MR. TERRY: Okay.
22 A. I really can't.
23 MR. TERRY: Thanks.

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1 A. But brokerage firms' profits are
2 just like this (indicating). Trust
3 departments' profits are like that
4 (indicating), so it helped smooth out Morgan
5 Keegan's earnings.
6 Q. (BY MR. HUGGS:) Other than the
7 select lists of stocks, bonds, mutual funds,
8 did you contribute to the development or
9 creation of any allocations or allocation
10 models for use by the portfolio managers?
11 A. No. In fact, I hated them.
12 Fortunately for me, I guess, I have gone
13 through all the things you go through to
14 become a portfolio manager and a chief
15 investment officer. I have been an analyst.
16 I have managed mortgage-backed securities --
17 huge mortgage-backed securities portfolios
18 back in '70s, huge in the '70s. I have stock
19 research. I have done bond research. I have
20 done tax free, taxable. I have managed
21 portfolios for individuals.
22 When I left NBC, I hated to leave
23 them because I had 95 or 100 perfectly happy

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1 clients, which is unusual, and I hated to
2 leave them, but I don't like models, I don't
3 like mutual fund models. I want to manage
4 money for people. Historically, I have done
5 as well or better than the majority of the
6 guys out there in this world. And, you know,
7 doing models is like a copout. You decided to
8 go with this mutual fund model here and so you
9 are going to do average at best. And my job
10 is -- and I told my portfolio managers, our
11 job is to provide the best return that we can
12 possibly provide to our clients at the least
13 expense, and that is what I am trying to do
14 now, too. I don't like mutual fund models.
15 Now, we had models and it was
16 another thing that Ken gave to somebody else
17 in the trust department, and they may have
18 wound up under Tom Gamble. Tom was one of the
19 guys that just caught all the stuff over
20 there. But models certainly -- I would say
21 they were important to them, to trust. I
22 don't know who managed those. It was not
23 Morgan Asset Management because we were trying

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1 to customize -- we were trying to help the
2 trust officer by customizing something that
3 fit.
4 For me, it's a 60-plus-year-old
5 guy needs so many dollars in bonds and so many
6 dollars in stocks. And for all of y'all in
7 your 30's, you need less bonds and more stock.
8 MR. TERRY: I wish I was still in
9 my 30's.
10 MR. MCNEILL: Same here.
11 A. One of you were listening.
12 MR. TERRY: I wish I was still in
13 my 40's.
14 MR. MCNEILL: Barely am.
15 Q. (BY MR. HUGGINS:) Did you ever
16 express concerns about the Kelsoe portfolios
17 to any of your management?
18 A. People that worked for me or
19 people that I worked for?
20 Q. Both.
21 A. People that worked for me, they
22 pretty much had the same outlook on junk bonds
23 that I did. I mean, I don't think I even had

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1 to bring it up. We have all been in the same
2 sort of situation managing money for people
3 and, you know, your return might not be the
4 best, but you sure better not lose any money.
5 I mean, that is sort of the bottom line.
6 So the people that I worked with
7 that worked for me, I worked with -- one of
8 them worked for me, too, were on the same page
9 I was on.
10 Now, above me, again, if I had
11 told trust officers you are not going to do
12 that, we are not going to buy those things and
13 it got back to Ken, I would be looking for a
14 job.
15 Q. Well, there is a difference
16 between refusing to use them and expressing a
17 concern about the makeup, for instance, or
18 asking for an explanation about the portfolio
19 itself.
20 Not going as far as saying we are
21 not going to use these, period, did you ever
22 ask for an explanation or express your concern
23 at the height of the returns than other fixed

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1 income funds to any upper management above
2 you?
3 MR. ANDERSON: Can you try that
4 question again? I lost it about halfway
5 through.
6 MR. HUGGINS: Well, there is
7 difference between expressing concern and flat
8 refusing to sell.
9 MR. ANDERSON: No, no, I just
10 lost the question.
11 Q. (BY MR. HUGGINS:) Did he ever
12 express concern such as asking for an
13 explanation? Not knowing what was in these
14 portfolios, why is it getting higher returns,
15 that kind of expressing concern, not refusing
16 to sell.
17 A. Oh, I expressed concern to Ken.
18 I certainly did. And that is like expressing
19 some concern to my boss. What does he do with
20 it? I don't know.
21 Q. Do you recall any specific times
22 that you went to him?
23 MR. ELLIOTT: Concerning what?

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1 Q. Concerning the same question,
2 concerning the funds and any concerns you had
3 of using them or the makeup of the funds.
4 MR. ELLIOTT: I think he has
5 already said they didn't use them. I mean, I
6 don't quite understand the question. And you
7 are talking about the Kelsoe funds, I am
8 taking it.
9 MR. HUGGS: I am.
10 MR. ELLIOTT: Is the question
11 whether or not he expressed concern to anybody
12 in management above him about using Kelsoe
13 funds in his trust funds?
14 MR. HUGGS: No. About the Kelsoe
15 funds, period.
16 MR. ELLIOTT: Okay.
17 A. A specific example, I expressed
18 concern numerous times. You know, when you
19 would -- I don't know, when you would see
20 something in the newspaper about these funds
21 and just go in there and say I wonder how long
22 this can last. I remember that when -- and I
23 guess it was Ken, it sure as heck wasn't me,

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1 wanted to put the high-yield bond fund and
2 intermediate bond fund in 401-K. And I went
3 like, no, we don't want to do that, we are
4 talking about people's retirement. And we had
5 a -- we had some kind of investment committee
6 there. And I have forgotten who ran that. It
7 wasn't me. But it was -- the Pension Plan
8 Committee was senior officers. And a guy
9 named John Norris and I oversaw the pension
10 plan, and then Human Resources ran the 401-K
11 plan.
12 MR. TERRY: When you said "senior
13 officers," I'm sorry, do you mean senior
14 officers from Morgan Keegan or --
15 A. No, Regions.
16 MR. TERRY: And was the HR
17 department also with Regions?
18 A. Yeah.
19 MR. TERRY: Single Human
20 Resources Department for the whole --
21 A. No. I think Morgan Keegan had
22 their own. But this is for the pension plan
23 and 401-K plan for Regions Financial Corp

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<p>1 only.</p> <p>2 MR. TERRY: I see. I've got you.</p> <p>3 A. When I say "senior officers," it</p> <p>4 was the CEO, the vice chairman -- the chairman</p> <p>5 and CEO, vice chairman, the head of the</p> <p>6 banking group, the head of Human Resources,</p> <p>7 the general counsel, I think five of them.</p> <p>8 And then I was a participant because I was out</p> <p>9 of Morgan Asset Management and John Norris and</p> <p>10 I managed that portfolio.</p> <p>11 And then Human Resources had</p> <p>12 somebody that was a participant not on the</p> <p>13 committee. And Ken may have been on the</p> <p>14 committee, I have forgotten. But I think it</p> <p>15 was Human Resources that came up with the use</p> <p>16 of those two funds and I was like, you know, I</p> <p>17 don't get to vote, but I wouldn't do this.</p> <p>18 And the yields at that time were just so good,</p> <p>19 everybody was excited about it. And I don't</p> <p>20 know what kind of participation we got, but I</p> <p>21 remember seeing them go on the list and</p> <p>22 thinking we don't want that.</p> <p>23 Q. When you mentioned the use of</p>	<p>1 say to your portfolio managers, certainly not</p> <p>2 to the trust officers?</p> <p>3 A. Uh-huh.</p> <p>4 Q. Did you receive any pressure to</p> <p>5 use any of the Kelsoe funds, for example, as</p> <p>6 much as you could stand, within those</p> <p>7 accounts?</p> <p>8 MR. ANDERSON: What accounts?</p> <p>9 A. You mean in trust accounts?</p> <p>10 Q. In trust accounts.</p> <p>11 A. You mean did I receive pressure</p> <p>12 from management or pressure from customers?</p> <p>13 Q. Management.</p> <p>14 A. No. I think in -- as being</p> <p>15 president and chief investment officer, I</p> <p>16 tried to go see every one of my offices on at</p> <p>17 least a quarterly basis, and some more often.</p> <p>18 And then the smaller ones, I tried to see</p> <p>19 maybe every six months.</p> <p>20 And the last trip I took was I</p> <p>21 left here on, I think, Thursday morning and</p> <p>22 drove to Little Rock and met with all the</p> <p>23 trust officers there and had dinner with my</p>
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<p>1 these funds in the 401-K plan and the pension</p> <p>2 plan --</p> <p>3 A. It was not used in the pension</p> <p>4 plan. It was not used in the pension plan.</p> <p>5 Take that back.</p> <p>6 Q. Well, it was brought up.</p> <p>7 A. It wasn't brought up for the</p> <p>8 pension plan. It was brought up for 401-K.</p> <p>9 John and I were in the pension plan that we</p> <p>10 wanted to run.</p> <p>11 Q. Not the pension plan. When you</p> <p>12 say "its use," did you mean it being offered?</p> <p>13 A. Right.</p> <p>14 Q. Okay.</p> <p>15 A. As an option, alternative.</p> <p>16 Q. That is -- I wanted to make it</p> <p>17 clear it on that.</p> <p>18 You have stated that it would</p> <p>19 have been your preference not to use any of</p> <p>20 the Kelsoe funds in trust accounts, period.</p> <p>21 A. Right.</p> <p>22 Q. However, that you also stated</p> <p>23 would not have been a career choice for you to</p>	<p>1 portfolio managers that night.</p> <p>2 At 8:00 the next morning, went to</p> <p>3 Texarkana and had lunch with those guys there</p> <p>4 and, you know, a couple of hours meeting and</p> <p>5 left there. And at 3:00 in the afternoon, was</p> <p>6 in Tyler, Texas with another group of</p> <p>7 portfolio managers and trust officers and had</p> <p>8 dinner with them.</p> <p>9 And Friday morning at 8:00, I was</p> <p>10 back in the car and drove back through Little</p> <p>11 Rock and dropped Roy off and was back here at</p> <p>12 6:00 that night. That was the last trip, and</p> <p>13 I realized I wasn't having as much fun as I</p> <p>14 thought.</p> <p>15 But everywhere that I went when I</p> <p>16 went to places like that, they would ask me</p> <p>17 about the Kelsoe funds and why do we not use</p> <p>18 them. And my answer just really became the</p> <p>19 same, we are managing money for trust clients,</p> <p>20 we have got to do the safest things that we</p> <p>21 can possibly do. And I don't know how Jim is</p> <p>22 manufacturing those returns, but he is</p> <p>23 manufacturing a product for retail brokerage.</p>

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<p>1 And in that case, you know, the broker is 2 calling the client and saying I have got this 3 product here and this is what it does and this 4 is what it yields, would you like some. And, 5 of course, we know that customers were buying 6 them. 7 And over on the trust side, the 8 trust client signs an agreement that says you 9 are managing this on a discretionary basis, I 10 don't want to talk to you about managing my 11 money except every quarter when I see returns 12 or once a year; don't call me and ask me if I 13 want you to buy Exxon, do it; and I want to 14 see the returns, that is it. 15 So it's an entirely different 16 situation there, and I explained that to trust 17 officers all over the place and portfolio 18 managers. I said I don't know how Jim is 19 manufacturing that return, it's not our 20 concern. 21 But I do know that they were 22 liquidating our fixed income fund, which was 23 an intermediate term bond fund and buying</p>	<p>1 Q. Sure. 2 A. And I had over here what, 3 80 percent of the employees and they were all 4 really good people, they were all -- most of 5 them were CFA's, which is the hardest 6 designation you can possibly go for. Most -- 7 a lot of them had master's degrees. They were 8 dedicated to their clients. I tried to hire 9 people that could manage money and that could 10 talk to the client as well, which is hard to 11 find sometimes. I had just a solid group of 12 people, and that is who I was working with. 13 Q. The example you just gave 14 possibly in Tyler, Texas where you got word 15 that many customers liquidated one fund and in 16 turn swapped for the Kelsoe fund, that would 17 have had to be done by either the trust 18 officers or the client's direction? 19 A. Right. 20 Q. Not your portfolio manager? 21 A. Right. And I had one portfolio 22 manager that covered Monroe, Louisiana; 23 Texarkana, Texas; Texarkana, Arkansas; and</p>
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<p>1 Jim's intermediate term bond fund because of 2 the yield. I do know that some did that and I 3 could do nothing about it. 4 My senior trader came down the 5 hall one day and said well, we just had a 6 whole bunch of folks out in, I think, it was 7 Tyler liquidate the fixed income fund and buy 8 Kelsoe's intermediate term bond fund. And I 9 said well, I can't do anything about it. And 10 I have told them the difference for years, and 11 if they don't pay attention, you know -- and 12 you can pretty well just say look at the 13 difference in yield, somebody is taking more 14 risks. Look at our yield, it fits all the 15 other high quality fixed income funds, 16 intermediate fixed income funds, we are right 17 in there with the peer group. 18 And some customer or some trust 19 officer just decided they were going to 20 liquidate and buy the other. I mean, I could 21 have pounded on the table and said don't buy 22 those funds and I would have been looking for 23 a job.</p>	<p>1 Tyler, Texas. And there probably were a dozen 2 trust officers. And I kept saying, you know, 3 my portfolio manager has got 4 or 500 accounts 4 and y'all have got a dozen trust officers out 5 here, this isn't fair. It didn't make any 6 difference, trust ran the place. 7 Q. Did Ken Alderman or Doug Edwards 8 ever suggest to you that you needed to use 9 more of the Kelsoe funds? 10 A. Uh-uh. 11 MR. ANDERSON: Was that yes? 12 A. No. 13 MR. TERRY: Who were -- 14 MR. MCNEILL: Thanks, Peter. 15 MR. TERRY: Who were your 16 portfolio managers' clients other than the 17 work they did for the trust officer? Did they 18 have independent clients or -- 19 A. Well, in the trust scheme of 20 things, the trust officers were the clients of 21 the portfolio managers. 22 MR. TERRY: I guess I am asking 23 did your portfolio managers have clients other</p>

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<p>1 than the through the trust department. 2 A. No. 3 MR. TERRY: So there was -- 4 A. No, sir. 5 MR. TERRY: Did you do any third 6 party management for any other firms or 7 anything like that? 8 A. No. We had some accounts that 9 were not trust accounts. They were money 10 management accounts, not in a trust, but we 11 still had a trust officer assigned to it, to 12 handle it. 13 MR. TERRY: What kind of accounts 14 would those have been? How would you have 15 gotten those clients? 16 A. By marketing very hard. Take the 17 City of Birmingham, we had a -- I brought -- 18 from NBC, I brought a \$28 million account over 19 that was for the firemen and policemen, not a 20 trust, it was a pension plan. 21 MR. TERRY: I see. 22 A. Separate from the City of 23 Birmingham regular pension plan. And it was,</p>	<p>1 if you know? 2 A. I don't know. 3 MR. TERRY: That wasn't your line 4 of business, though? 5 A. Not in the brokerage firm, no. 6 MR. TERRY: But handling 7 individual investment advisory accounts for 8 individuals and doing individual investment 9 advice? 10 A. We didn't do advice. We managed 11 money. 12 MR. TERRY: You managed money? 13 A. Yeah. 14 MR. TERRY: Through the trust 15 department and then through some pension funds 16 and other institutional accounts? 17 A. Yeah, but still it was all 18 through the trust department. 19 MR. TERRY: Okay. All right. 20 MR. HUGGS: I don't have any 21 other questions. I appreciate you spending -- 22 MR. MCNEILL: An hour and a half. 23 MR. HUGGS: -- an hour and a half</p>
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<p>1 like I say, \$28 million. At that time, it was 2 all fixed and we had a trust officer assigned 3 to it and a portfolio manager assigned to it. 4 MR. TERRY: So these separate 5 accounts, were they institutional accounts of 6 that nature, typically pension funds? 7 A. Yes. 8 MR. TERRY: So no individual 9 customers, you weren't acting an investment 10 advisor for -- 11 A. Well, we could have had, but I 12 don't remember. But that really wouldn't have 13 made any difference, we still had a trust 14 officer assigned to it. 15 MR. TERRY: Do you know if Morgan 16 Keegan had investment advisory accounts for 17 individuals in addition to their brokerage 18 accounts? 19 A. You are talking about Jim 20 having -- Jim Kelsoe having that? 21 MR. TERRY: No, no, not Jim 22 Kelsoe. Just Morgan Keegan, the brokerage 23 firm. Did it have advisory accounts as well,</p>	<p>1 with us this afternoon. 2 A. You have done your job well. You 3 had some good questions. 4 MR. TERRY: Did we miss any 5 questions? 6 MR. HUGGS: Did we miss anything? 7 MR. TERRY: If you were sitting 8 here trying to understand how things worked, 9 did we not ask you something that we should 10 have asked you? 11 A. Well, I don't think so. I guess, 12 you know -- and I love telling a story about 13 building my investment firm over here and what 14 we did and the people that I had working with 15 me. I had some of the brightest young people 16 with young families and, you know, cute little 17 children and we had a Christmas party at my 18 house every Christmas and just had, you know, 19 just a great deal going. And we built 20 something that this city has not ever seen and 21 will never see again with what they are doing 22 now. 23 I had a portfolio manager back</p>

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<p>1 when AmSouth was AmSouth who managed their 2 value fund, and we had lost our value fund 3 manager and I was managing it along with 4 managing all my people and everything. I 5 loved managing the value fund. I wish I was 6 still doing it.</p> <p>7 But AmSouth was tightening down 8 on their value fund manager over here, his 9 returns weren't very good. He had worked for, 10 I want to say, Pioneer Funds in Boston and had 11 come down here making a whopping salary. He 12 had one fund to manage. He didn't manage any 13 outside accounts -- any other accounts. 14 Charlie Murray managed three mutual funds for 15 me at one time and had like 35 other accounts. 16 It's just ridiculous, but I couldn't squeeze 17 any more out of Ken to get any more help.</p> <p>18 A guy managing three mutual funds 19 by himself with one assistant -- anyway, I had 20 the greatest group of people. And we did such 21 a really good job in building it, it was so 22 much fun. And when I first came to the trust 23 department, they had nothing like that,</p>	<p>1 use the words "our" and "my," they were my 2 guys. And I straightened out so many problems 3 like the problem in Little Rock with two 4 portfolio -- the two senior portfolio managers 5 yelling at each down the hall, had to get rid 6 of them. She is better off, she is in Dallas 7 doing something she wanted to do.</p> <p>8 And Hoyt, whose dad was a hugely 9 well-known doctor in Little Rock, Hoyt became 10 the manager, and using some of his dad's 11 influence started bringing in accounts that, 12 God, just knows everybody. If you go to lunch 13 with him, you don't have a chance to sit down 14 because he talks to everybody in the dining 15 room.</p> <p>16 MR. TERRY: Let me ask you two 17 more things -- actually, one that just came to 18 mind. You mentioned -- I think you said you 19 couldn't squeeze any more money out of Ken to 20 hire more people. When you had an idea for 21 hiring people or doing anything that would 22 require more money, I gather from that comment 23 that you would have to clear that through Ken?</p>
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<p>1 absolutely nothing. If the stock was in the 2 S&P 500, they could buy it.</p> <p>3 There was no direction. Charlie 4 Murray in Mobile could be buying a stock and 5 Hoyt Pile in Little Rock could be selling it 6 the same day. You know, if you had two 7 sisters that had to happen, you have got a 8 lawyer that is really happy with that deal, 9 but that is -- they had no discipline and we 10 had the most fun putting that together.</p> <p>11 And when I tell y'all if I use 12 the word "my" or "our," I'm talking about my 13 portfolio managers over here and what we all 14 built together and had there for six years. 15 And I'm not kidding you, we had the best 16 returns Regions has ever seen in 2005. We had 17 two or three funds that were in the top ten in 18 their category in The Wall Street Journal in 19 the category Kingsley, which is just 20 outstanding, I think. Coming from nowhere, I 21 think that is.</p> <p>22 But anyway, I don't guess that is 23 telling you anything different. But when I do</p>	<p>1 A. Oh, yeah.</p> <p>2 MR. TERRY: Do you know where 3 ultimately up the chain those decisions were 4 made? Was it Ken, did he have a --</p> <p>5 A. Ken.</p> <p>6 MR. TERRY: He was autonomous.</p> <p>7 A. I didn't finish. I got 8 sidetracked. But I was talking about the 9 portfolio manager from AmSouth. He came over 10 and said he wanted to come to work for us, 11 needed a job, wanted to come to work for us. 12 He knew that AmSouth was fixing to fire him.</p> <p>13 And I said let me tell you how we 14 do this and I explained to him that we had a 15 quarterly strategy meeting and my mutual fund 16 managers and my office managers were in that 17 strategy meeting and we all kicked things 18 around all day long. We meet in a central 19 location in Montgomery and we kick things 20 around all day long and we came out of there 21 with a strategy we were going to use it for 22 the next 90 days.</p> <p>23 And he said you mean that you let</p>

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<p>1 your portfolio managers have input into your 2 strategy? And I said, yeah, they are the guys 3 that are on the ground managing the money. I 4 am trying to manage them and I'm trying to 5 provide direction to them, but they are the 6 ones that know what is happening intricately 7 in the market every day, not me. 8 And he said well, our department 9 head over at AmSouth walks down the hall and 10 said overweight energy, sticks his head in our 11 door and says overweight energy. I'm supposed 12 to overweight energy. He said my return is 13 terrible because I am doing what he is telling 14 me to do, and I want to come work for you. 15 Well, it turned out he was 16 making -- over here at AmSouth managing one 17 fund, he was making twice what my value fund 18 managers were making, and had a bonus equal to 19 his salary -- could be equal to his salary. 20 Grossly overpaid compared to us. He got a job 21 back in Chicago or Boston or somewhere like 22 that. 23 I had another guy from Wachovia,</p>	<p>1 doing, but he wound up going to Ohio. Got a 2 job with, I think, Key Bank. I hate to 3 belabor the point with y'all, but that is what 4 I was doing. 5 MR. TERRY: You had mentioned one 6 other thing, I just wanted to follow up on 7 just to clarify. You had mentioned that you 8 got Kelsoe's performance evaluation from an HR 9 department, and then later you said that you 10 thought that Morgan Keegan had an HR 11 department at Regions; do you remember which 12 HR department you got Kelsoe's evaluation 13 from? 14 A. No, I don't. I will add 15 something to one of your questions, though. 16 You asked me about who made the decisions 17 about how much I could spend on portfolio 18 managers. I have forgotten what year it was, 19 it may have been 2004, but I was managing like 20 three mutual funds, and, I guess, the value 21 fund, the balance fund and maybe the fixed 22 income fund. 23 And we had a Mutual Fund Board</p>
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<p>1 from Colombia looking to a hire a portfolio 2 manager in Atlanta. We didn't have any 3 presence there, but we were going to try to do 4 something. This guy was probably 55 years old 5 and could see the handwriting on the wall and 6 he came over here and we talked to him a 7 couple of times because I wanted him -- he was 8 going to have to move to Atlanta, and he said 9 if -- he was from Ohio. But he said if I have 10 got to move, I'm going back to Ohio, I want to 11 work for you, I want to work out of Colombia. 12 And I told him about our 13 discipline, I showed him our returns, and he 14 said my God, I don't ever even hear anything 15 from y'all, y'all have got the best returns I 16 have ever seen in a bank mutual fund complex. 17 He said we can't even get people at Wachovia 18 to use our funds our returns are so bad. 19 That is a compliment to me, I 20 think. I absolutely loved it that these two 21 guys were over there saying I want to come to 22 work for you because I like your system and I 23 like your discipline and I like what y'all are</p>	<p>1 meeting in Memphis. And the independent 2 directors always had a separate meeting. And 3 we got there early and we drank coffee and 4 talked and whatever. While they were having 5 their separate meeting, one of them came out 6 there and got me and said we need to talk to 7 you. So I went back in the room there and, 8 you know, we have got some concerns about what 9 you are doing, and I said what is that. And 10 he said how can you possibly manage three 11 mutual funds and manage 30 something people 12 out there? 13 And I said well, I don't have any 14 choice, you know, I'm the only one with the 15 most experience, I'm the only one that can 16 manage this and I don't have any money to hire 17 anybody else. I can't squeeze any more money 18 out of Ken to hire anybody else. 19 And Steely McFadden who, I think, 20 was the chairman of that group, Steely said -- 21 after a lot more discussion, in the discussion 22 he says you go start making plans to hire you 23 some portfolio managers, I'll take care of</p>

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<p>1 Ken.</p> <p>2 And I walked out the door and</p> <p>3 went back and Ken was saying what was that all</p> <p>4 about, and I told him. And he said I do think</p> <p>5 you need to start hiring some more portfolio</p> <p>6 managers. So we did, but it took the</p> <p>7 independent directors, and I was so pleased</p> <p>8 when they said you need to hire some more</p> <p>9 portfolio managers.</p> <p>10 Q. (BY MR. HUGGS:) I certainly</p> <p>11 understand about having a good working group,</p> <p>12 one of the best feelings in the world. With</p> <p>13 your good working group, top performances in</p> <p>14 '05, on the top Wall Street list and whatever,</p> <p>15 three of your funds; in your opinion, why were</p> <p>16 you asked to leave in '06?</p> <p>17 A. Well, should I tell you what Ken</p> <p>18 said or should I tell you what the truth is?</p> <p>19 Q. Well, I would like both.</p> <p>20 A. Ken said -- he was very careful</p> <p>21 not to use the age thing, which I was looking</p> <p>22 for when we started the discussion. But it</p> <p>23 was something about Brian -- Doug and I have</p>	<p>1 not ready to retire, needed to build some more</p> <p>2 stuff to retire on. So I didn't fight him, I</p> <p>3 said okay, tell me which one of those you want</p> <p>4 me to do, I'd be glad to try to work with</p> <p>5 Brian. And so he said well, you need to have</p> <p>6 a meeting with Brian on -- and I'll set it up</p> <p>7 for Monday afternoon for like 4:30 when the</p> <p>8 market is closed when y'all can get together.</p> <p>9 And this meeting is important because if Brian</p> <p>10 doesn't like you, he's not going to accept you</p> <p>11 in any one of those jobs.</p> <p>12 And I said Ken, I have known</p> <p>13 Brian --</p> <p>14 Q. Brian?</p> <p>15 A. Brian Sullivan, who is head of</p> <p>16 Morgan Asset Management. I said Ken, I have</p> <p>17 known Brian longer than I have known you, he</p> <p>18 was my vice president when I was head of the</p> <p>19 analyst society here. I have laughed at some</p> <p>20 of the stuff he has done at AmSouth. I have</p> <p>21 taken business away from him at down at NBC.</p> <p>22 I know Brian. We are not going to have a</p> <p>23 problem.</p>
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<p>1 decided with Brian that we want to go in</p> <p>2 another direction. And I was sitting there</p> <p>3 thinking we just had the best returns this</p> <p>4 company has ever had, what direction do you</p> <p>5 want to go in.</p> <p>6 And then he -- well, first of</p> <p>7 all, he said I can offer you three jobs. And</p> <p>8 one of them was to be like in charge of</p> <p>9 personnel for Morgan Asset Management or in</p> <p>10 charge of the personal trust portfolio</p> <p>11 managers, which would be the Susan McClures</p> <p>12 and the John Hagglers and people like that,</p> <p>13 the people who didn't manage mutual funds,</p> <p>14 that was one. Two was or maybe we can find</p> <p>15 you a mutual fund to manage. And the third</p> <p>16 one was just a throw away to insult me pretty</p> <p>17 well. He said and if we can't find anything</p> <p>18 like that, I'm sure you can assist Charlie or</p> <p>19 Bucky managing their funds. And I just looked</p> <p>20 at him and laughed and I said, you know, this</p> <p>21 is the craziest thing I have ever heard.</p> <p>22 But at the same time, I'm trying</p> <p>23 to save my income because I was 62 years old,</p>	<p>1 So I came over here and met with</p> <p>2 Brian and we went over my entire organization</p> <p>3 chart. I talked to him about the people. In</p> <p>4 fact, we didn't talk about Kelsoe. We talked</p> <p>5 about the real portfolio managers and where</p> <p>6 they were and what they did. And we got</p> <p>7 through with it and I said now, Brian, Ken</p> <p>8 told me that you and I are supposed to decide</p> <p>9 where I'm going to work in your organization,</p> <p>10 and I would like to begin talking to you about</p> <p>11 that. And he said, Carter, that is so</p> <p>12 premature, you know, we have got to run</p> <p>13 side-by-side accounting systems for probably</p> <p>14 another 10 or 11 months I have been told. So</p> <p>15 we are looking at -- this is July, and we are</p> <p>16 looking at July of '07, that is just so</p> <p>17 premature, we don't need to talk about that.</p> <p>18 And I said okay, fine.</p> <p>19 And so I came back and thought</p> <p>20 well, this is funny, I could still be here</p> <p>21 until the middle of next year and then I'll</p> <p>22 have a job doing something.</p> <p>23 Well, about two weeks later, Ken</p>

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<p style="text-align: right;">Page 89</p> <p>1 came down to my office and said I surely am 2 sorry that your meeting with Brian went so 3 poorly. And I said what are you talking 4 about? And he said well, Brian, said that 5 y'all just had a real disagreement over 6 everything and that you got up and left. And 7 I said that is the farthest thing from the 8 truth I have ever heard, that is not true. 9 And he said that is what Brian said. 10 And I said Ken, somebody is lying 11 and it's not me. And he didn't even turn 12 around and walk out. He backed out of the 13 office. I think he was afraid I was going to 14 hit him or something. 15 Long story. I'm sorry to bore 16 y'all with that. I think the real reason, in 17 the discussion he said something like oh, and 18 you know you have had cancer, which I have 19 had, like that is a reason to get rid of 20 somebody that is healthier than he is. But he 21 threw that out there, which I thought was a 22 really ugly statement. 23 I have been told by Carl Jones</p>	<p style="text-align: right;">Page 91</p> <p>1 MR. TERRY: I have nothing else. 2 MR. MCNEILL: I'm good. All 3 right. I think that ends it. Thank you very 4 much. 5 6 7 THE ABOVE WAS ALL OF THE 8 FOREGOING PROCEEDINGS 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23</p>
<p style="text-align: right;">Page 90</p> <p>1 and Rick Horsley -- chairman and CEO, Carl 2 Jones, and vice chairman, Rick Horsley, said 3 boy, I sure am sorry that you are leaving, you 4 did the best job that anybody has ever done 5 here and you ought not to be the one leaving. 6 I have been told by other people, 7 and one of them was a former trust officer in 8 Mobile, Ben Landham. Ben said don't ever do 9 too good a job for Ken, don't show him up 10 because he will get rid of you. 11 And Ken's group never produced 12 any kind of returns like my group did. We had 13 developed the best communication system, you 14 know, just had a superb system running, and 15 it's been torn completely down. It's gone. 16 And I say, you know, I think that 17 I was a threat to him. Little does he know 18 that I wouldn't be head of a trust department 19 for anything in the world, it's not fun. 20 Managing money is fun if you do it right. I'm 21 sorry, I have -- carry on. 22 MR. HUGGS: That is fine. That 23 is why I asked. I want to know.</p>	<p style="text-align: right;">Page 92</p> <p>1 CERTIFICATE 2 3 4 STATE OF ALABAMA 5 JEFFERSON COUNTY 6 7 I hereby certify that the above 8 and foregoing statement was taken down by me 9 in stenotypy, and the questions and answers 10 thereto were reduced to typewriting under my 11 supervision, and that the foregoing represents 12 a true and correct transcript of the testimony 13 given by said witness upon said hearing. 14 I further certify that I am 15 neither of counsel nor of kin to the parties 16 to the action, nor am I in anywise interested 17 in the result of said cause. 18 19 20 21 22 COMMISSIONER-NOTARY PUBLIC 23 ACCR LICENSE NO. 162</p>

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