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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

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IN THE MATTER OF DETERMINING
whether there has been a violation
of the Securities Act of Washington by:

Regions Investment Management, Inc. (f/k/a
Morgan Asset Management, Inc.);
Morgan Keegan & Company, Inc.,

Respondents.

Order Number S-11-0710-11-CO01

CONSENT ORDER

WHEREAS, Morgan Keegan & Company, Inc. (“MKC”) is a broker-dealer in the state of
Washington; and

WHEREAS, Regions Investment Management, Inc. (“RIM”) is a federally registered
investment adviser with the SEC. RIM was formerly known as Morgan Asset Management, Inc.
 (“MAM”), which was at all relevant times an affiliate of MKC; and

WHEREAS, coordinated investigations into the activities of MKC and MAM, in
connection with certain violations of the Washington State Securities Act and other states’
securities acts, and certain business practices, have been conducted by a multistate task force
 (“Task Force”) and an additional investigation has been conducted by the United States
Securities and Exchange Commission (“SEC”) and the Financial Industry Regulatory Authority
 (“FINRA”) (collectively, the “Regulators”); and

CONSENT ORDER

1

DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
PO Box 9033
Olympia, WA 98507-9033
360-902-8760

1 WHEREAS, MKC and RIM (f/k/a MAM) have cooperated with the Task Force
2 conducting the investigations by responding to inquiries, providing documentary evidence and
3 other materials, and providing Regulators with access to facts relating to the investigations; and

4 WHEREAS, MKC and RIM (f/k/a MAM) have advised the Regulators of their
5 agreement to resolve the investigations; and

6 WHEREAS, MKC and RIM (f/k/a MAM) elect to permanently waive any right to a
7 hearing and appeal under RCW 21.20.440 and RCW 34.05, with respect to this Administrative
8 Consent Order (the “Consent Order”); and

9 WHEREAS, MKC and RIM (f/k/a MAM) admit the jurisdictional allegations herein, and
10 MKC and RIM (f/k/a MAM) admit to the allegations in paragraphs 41 through 43 of Section II,
11 relating to the maintenance of books and records, but MKC and RIM (f/k/a MAM), except as
12 admitted above, otherwise neither admit nor deny any of the findings of fact, allegations,
13 assertions or conclusions of law that have been made herein in this proceeding;

14 NOW, THEREFORE, the Securities Administrator, as administrator of the Securities Act
15 of Washington, hereby enters this Consent Order:
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18 **RESPONDENTS AND PERSONS/ENTITIES AFFILIATED WITH THE**
19 **RESPONDENTS**

20 1. Respondent **Morgan Keegan & Company, Inc.** (“MKC”) (CRD No. 4161), a
21 Tennessee corporation, is a registered broker-dealer with the state of Washington and the SEC,
22 as well as a federally registered investment adviser with the SEC. At all relevant times MKC
23

1 was properly registered and notice-filed with the state of Washington. MKC was at all relevant
2 times a wholly owned subsidiary of Regions Financial Corporation (“RFC”) which is
3 headquartered in Birmingham, Alabama. MKC’s primary business address is 50 Front Street,
4 Morgan Keegan Tower, Memphis, Tennessee 38103-9980.

5 2. Respondent **Regions Investment Management, Inc.** (“RIM”), a Tennessee
6 corporation, is a federally registered investment adviser with the SEC (CRD No. 111715). RIM
7 was formerly known as Morgan Asset Management, Inc. (“MAM”) until on or after January 11,
8 2012. MAM was at all relevant times a wholly owned subsidiary of MK Holding, Inc., which
9 was at all relevant times a wholly owned subsidiary of RFC. RIM is headquartered in Alabama
10 with a principal business address of 1901 6th Avenue North, 4th Floor, Birmingham, Alabama
11 35203.

12 3. **Wealth Management Services** (“WMS”), a division of MKC, developed,
13 recommended, and implemented asset allocation strategies for MKC and was to perform due
14 diligence on traditional and alternative funds and fund managers for the benefit of MKC, its
15 Financial Advisers (alternatively referred to as “FAs,” “sales force” or “agents”), and certain
16 investor clients.
17

18 4. **James C. Kelsoe, Jr.** (“Kelsoe”) (CRD No. 2166416) was Senior Portfolio
19 Manager of the Funds, as defined in paragraph II.5 below, and was responsible for selecting and
20 purchasing the holdings for the Funds. Kelsoe was an employee of MAM and registered through
21 MKC.
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II.

FINDINGS OF FACT

5. The seven (7) funds at issue are Regions Morgan Keegan Select Intermediate Bond Fund (“Intermediate Bond Fund”), Regions Morgan Keegan Select High Income Fund (“Select High Income Fund”), Regions Morgan Keegan Advantage Income Fund (“Advantage Income Fund”), Regions Morgan Keegan High Income Fund (“High Income Fund”), Regions Morgan Keegan Multi-Sector High Income Fund (“Multi-Sector High Income Fund”), Regions Morgan Keegan Strategic Income Fund (“Strategic Income Fund”), and Regions Morgan Keegan Select Short Term Bond Fund (“Short Term Bond Fund”) (collectively, the “Funds”).

6. Six (6) of the seven (7) Funds were largely invested in mezzanine and lower subordinated “tranches,” or slices, of structured debt instruments, which carry more risk than the senior tranches.¹ The Funds were comprised of many of the same holdings. On June 30, 2007, approximately two-thirds (2/3) of the holdings of the four (4) closed-end funds and the Select High Income Fund were substantially identical. Approximately one quarter (1/4) of the Intermediate Bond Fund’s holdings corresponded to the holdings of the five (5) high yield Funds. The Funds were highly correlated, meaning they behaved like each other under similar market conditions. The combination of subordinated tranche holdings and the high correlation of the Funds caused investors owning more than one (1) of these funds to have a heightened risk of over concentration.

¹ The seventh, the Short Term Bond Fund, had significant investments in mezzanine and subordinated tranches of structured debt instruments.

1 7. The Funds were created and managed by Kelsoe, MAM Senior Portfolio
2 Manager. Kelsoe was also principally responsible for the purchase and sale of all of the holdings
3 in the Funds.

4 8. When WMS ceased reporting and dropped its coverage of the Select Intermediate
5 Bond Fund and Select High Income Fund in July 2007, it failed to announce the drop in coverage
6 in writing until November, 2007. WMS did not publish a withdrawal of its prior analysis or
7 recommend the Funds' replacement.

8 9. On January 19, 2007, WMS announced it was reclassifying the Intermediate Bond
9 Fund on the Select List from "Fixed Income" to "Non-Traditional Fixed Income." Meanwhile,
10 WMS profiles for the Intermediate Bond Fund continued to label it as the "Intermediate
11 Gov't/Corp Bond."

12 10. Certain of the Funds' annual, semi-annual, and quarterly reports filed with the
13 SEC did not adequately disclose the risks of subordinated tranches and the quantity of
14 subordinated tranches held within the Funds.
15

16 11. MAM produced quarterly glossies for all seven (7) Funds. In the glossies, MAM
17 did not adequately describe the risks of owning the lower tranches of structured debt instruments
18 or the quantity of such holdings within the Funds.

19 12. MKC, through WMS, produced quarterly Fund Profiles for the Intermediate Bond
20 Fund, the Select High Income Fund, and the Short Term Bond Fund that did not adequately
21

1 describe the risks of owning the lower tranches of structured debt instruments or the quantity of
2 such holdings within the Funds.

3 13. In SEC filings and state notice filings of March and June 2007 involving the
4 Funds, Four Hundred Million Dollars (\$400,000,000.00) of what MAM characterized as
5 corporate bonds and preferred stocks were, in fact, the lower, subordinated tranches of asset-
6 backed structured debt instruments. MAM eventually reclassified certain of these structured
7 debt instruments in the March 2008 Form N-Q Holdings Report for the three (3) open-end funds.

8 14. In SEC filings, MAM compared the four (4) closed-end funds and the Select High
9 Income Fund (collectively the “RMK high-yield funds”), which contained approximately two-
10 thirds (2/3) structured debt instruments, to the Lehman Brothers U.S. High Yield Index
11 (“Lehman Ba Index”). The Lehman Ba Index is not directly comparable to the RMK high-yield
12 funds given the fact that the Lehman Ba Index contained only corporate bonds and no structured
13 debt instruments.

14 15. Certain marketing materials and reports minimized the risks and volatility
15 associated with investing in funds largely comprised of structured debt instruments. In the June
16 30, 2007 glossy, and in previous quarterly glossies created by MAM, MAM and MKC marketed
17 the Intermediate Bond Fund as a fund appropriate for “Capital Preservation & Income.” MAM
18 later revised the Intermediate Bond Fund glossy in September 2007 by removing the caption
19 “Capital Preservation & Income” and replacing it with “Income & Growth,” and by removing
20 the word “stability,” which had previously been used to describe the fund.
21

1 16. The Intermediate Bond Fund glossies dated June 30, 2007, and September 30,
2 2007, stated that the Intermediate Bond Fund "...does not invest in speculative derivatives."
3 However, the Intermediate Bond Fund did use derivatives, including interest-only strips, and
4 collateralized debt obligations (CDOs), which are derived from the mezzanine and lower
5 tranches of other debt securities.

6 17. Respondent MKC, through WMS, labeled the Intermediate Bond Fund with
7 varying names. None of the three labels "Taxable Fixed Income," "Enhanced Low-Correlation"
8 and "Intermediate Gov't/Corp Bond" used by MKC adequately portrayed the nature of the
9 Intermediate Bond Fund, of which approximately two-thirds (2/3) of the portfolio was invested
10 in the mezzanine or lower subordinated tranches of structured debt instruments. The label
11 "Gov't/Corp Bond," which first appeared on the December 31, 2006 profile sheet, was never
12 changed after that date.

13 **A. SUPERVISION AND SUPERVISORY DUE DILIGENCE**

14 18. During the period January 1, 2007 through July 31, 2007, preceding the collapse
15 of the subprime market, MAM made 262 downward price adjustments for the purpose of
16 adjusting the net asset value of the Funds. In some instances, MAM's communications led
17 MKC, through its sales force, to actively discourage investors from selling the Funds -- even
18 while fund prices continued to decline -- by advising investors to "hold the course." Some
19 members of MKC, MAM, and their management personnel, continued during this period to
20

1 advise FAs and investors to buy the Funds through, *inter alia*, statements that characterized the
2 decline as “a buying opportunity.”

3 19. MKC and MAM failed to adequately supervise the flow of information to the
4 MKC sales force concerning the Funds. For example, in conference calls with the sales force,
5 the senior portfolio manager for the Funds cited sub-prime fears and liquidity as the primary
6 factors for a decline in the net asset value of the Funds without fully explaining the market
7 impact on certain securities held by the Funds.

8 20. WMS did not complete a thorough annual due diligence report of the open-end
9 funds and the management of the open-end funds in 2007. A fixed income analyst for WMS
10 attempted to complete an annual due diligence review of the open-end funds and the
11 management of the open-end funds in the summer of 2007, but was unsuccessful due to Kelsoe’s
12 and MAM’s failure to provide sufficient information and Kelsoe’s failure to be available for a
13 meeting during normal operating hours. Subsequently, WMS failed to notify the MKC sales
14 force of WMS’s failure to complete the annual on-site due diligence review. An incomplete
15 draft of WMS’s annual due diligence report for internal use only was submitted by the WMS
16 analyst, but it was neither completed nor released to the sales force.
17

18 21. On July 31, 2007, WMS dropped coverage of all proprietary products, which
19 included the funds for which WMS could not produce a thorough report. This fact was not
20 disclosed in writing to the sales force until November 2007.
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1 22. Based on WMS's one (1) page, one (1) paragraph report of the August 18, 2006
2 on-site due diligence review, the due diligence visits by the WMS fixed income analysts were
3 not "detailed, thorough, and exhaustive," as advertised by MKC. There are two (2) WMS
4 profiles of the Intermediate Bond Fund dated September 30, 2006. The sections titled
5 "investment philosophy" in the profile sheets contain substantial differences. The first WMS
6 profile for the Intermediate Bond Fund, based on the information for the quarter ending
7 September 30, 2006, is titled "Taxable Fixed Income." The first profile, much like previous
8 quarterly profiles, does not refer to any of the holdings as "inferior tranches." Neither does it
9 mention potential lack of demand and lack of liquidity. Further, it includes the statement that
10 "The fund does not use derivatives or leverage."

11 23. WMS's changing of the Intermediate Bond Fund profile label indicated WMS's
12 inability and lack of supervision in the creation of these marketing pieces to accurately
13 categorize the Intermediate Bond Fund. Within one (1) quarter, WMS identified the
14 Intermediate Bond Fund three (3) different ways:
15

16 *September 30, 2006 - Taxable Fixed Income*
17 *September 30, 2006 - Enhanced Low Correlations Fixed Income*
18 *December 31, 2006 - Intermediate Gov't/Corp Bond*

19 24. The "Gov't/Corp Bond" label implied that the Intermediate Bond Fund holdings
20 were predominately government and corporate bonds carrying a certain degree of safety. This
21 improper labeling indicates a failure to conduct proper due diligence, a duty of MKC.
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1 25. In addition, all profiles for the Intermediate Bond Fund from March 31, 2006,
2 through June 30, 2007, stated that Kelsoe was joined by Rip Mecherle (“Mecherle”) as assistant
3 portfolio manager. Mecherle left MAM in 2004. The failure to detect the errors in promotional
4 materials relating to management does not reflect the “detailed, thorough, and exhaustive due
5 diligence” claimed by MKC in its sales and promotional material distributed to investors.

6 **B. SUITABILITY OF RECOMMENDATIONS**

7 26. Respondent MAM indicated that risks and volatility were minimized in the
8 Intermediate Bond Fund portfolio. In the June 30, 2007 glossy, and previous quarterly glossies
9 created by MAM, Respondents marketed the Intermediate Bond Fund’s broad diversification of
10 asset classes three (3) times on the first page of each of the glossies, when in fact, approximately
11 two-thirds (2/3) of the Intermediate Bond Fund portfolio was composed of structured debt
12 instruments which included risky assets. The four (4) closed-end funds also advertised
13 diversification among asset classes, despite the similarities in asset classes as set forth in Section
14 C below.

15 27. Furthermore, the glossies emphasized the Select High Income Fund’s net asset
16 value as being less volatile than typical high-yield funds. The glossies failed to state that a
17 reason for any lower volatility was that the structured debt instruments within the Select High
18 Income Fund were not actively traded, and that the daily fair value adjustments of certain
19 holdings were imprecise in a market that became illiquid.
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1 28. In certain cases, MKC and its sales force failed to obtain adequate suitability
2 information regarding risk tolerance that was necessary to determine suitability for using the
3 Funds for regular brokerage account customers. New account forms for regular brokerage
4 accounts provided a menu of four (4) investment objectives to choose from: Growth, Income,
5 Speculation, and Tax-Advantaged. Risk tolerance was not addressed by the form, was not noted
6 by the sales force whose records were examined during the investigation, and may not have been
7 taken into consideration when the sales force made its recommendations.

8 29. In at least one instance, an agent of MKC provided a customer with a self-made
9 chart assuming the hypothetical growth of One Hundred Thousand Dollars (\$100,000.00) over
10 five (5) years, and comparing the rate of return on CDs to the return on the Intermediate Bond
11 Fund. The chart failed to address any risks of investing in the fund, save the caption “Not FDIC
12 Insured.”

13
14 **C. ADVERTISEMENTS BY RESPONDENTS**

15 30. Marketing glossies prepared by MAM for the Intermediate Bond Fund and Select
16 High Income Fund contained allocation pie charts dividing the categories of holdings by
17 percentages of the total portfolio. Between June 2004 and March 2005, the pie charts for both
18 funds changed significantly: MAM divided the category originally titled “asset-backed
19 securities” into multiple categories. These changes indicated that the holdings of these Funds
20 were more diversified than they actually were because the majority of the portfolios continued to
21 be invested in asset-backed securities.

- 1 a. In the Intermediate Bond Fund glossy dated June 30, 2004, the Asset-
2 Backed Securities (ABS) and Commercial Mortgage Backed Securities
3 (CMBS) are listed under a single heading comprising seventy percent
4 (70%) of the portfolio.
- 5 b. In the Intermediate Bond Fund glossy dated December 31, 2004, the pie
6 chart was revised and the ABS and CMBS are shown as separate
7 categories, but together still comprise seventy-six percent (76%) of the
8 portfolio.
- 9 c. The Intermediate Bond Fund glossies dated March 31, 2005, show the
10 ABS category further split into six (6) categories that, together with
11 CMBS, comprised seventy-seven percent (77%) of the portfolio. Those
12 six (6) categories were: "Manufactured Housing Loans," "Home Equity
13 Loans," "Franchise Loans," "Collateralized Debt Obligations,"
14 "Collateralized Equipment Leases," and "Other." Subsequent glossies
15 continue to show the ABS split into six (6) categories.
- 16
17
18 d. In the Select High Income Fund glossy dated June 30, 2004, the ABS and
19 CMBS are listed under a single heading comprising sixty percent (60%) of
20 the portfolio.
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1 e. In the Select High Income Fund glossy dated December 31, 2004, the pie
2 chart was revised and the ABS and CMBS are shown as separate
3 categories, but together still comprise fifty-nine percent (59%) of the
4 portfolio.

5 f. The Select High Income Fund glossy dated March 31, 2005, shows the
6 ABS category further split into six (6) categories which, together with
7 CMBS, comprised sixty-four (64%) of the portfolio. Those six (6)
8 categories were: “Collateralized Debt Obligations,” “Manufactured
9 Housing Loans,” “Collateralized Equipment Leases,” “Franchise Loans,”
10 “Home Equity Loans,” and “Other.” Subsequent glossies continue to
11 show the ABS split into six (6) categories.
12

13 31. The pie charts in the glossies for the High Income Fund were also changed in a
14 similar manner between June 2004 and March 2005.

15 32. Similar changes were also made to pie charts in glossies for the Advantage
16 Income Fund and the Strategic Income Fund between December 2004 and March 2005.
17

18 33. Respondent MKC used different index comparisons in the Select High Income
19 Fund “profile” sheets produced by WMS. These profile sheets compared the Select High
20 Income Fund to the Credit Suisse First Boston High Yield Index, as well as the Merrill Lynch
21 US High Yield Cash BB Index. These two indices only contain corporate bonds and no
22 structured debt instruments. The Select High Income Fund contained substantially different risks
23

1 than the portfolios within either of the two indices, and therefore these benchmarks were not
2 directly comparable.

3 **D. REQUIRED EXAMINATIONS OF CUSTOMER ACCOUNTS TO DETECT AND**
4 **PREVENT IRREGULARITIES OR ABUSES**

5 34. While the models for WMS managed accounts limited the use of the Intermediate
6 Bond Fund to certain percentages, usually no more than fifteen percent (15%) of any client's
7 portfolio, there was no such limitation for non-managed accounts. Additionally, no guidance
8 was provided to the FAs regarding limiting concentrations of the Intermediate Bond Fund in
9 non-managed accounts. As a result, certain customer accounts contained in excess of a twenty
10 percent (20%) concentration of the Intermediate Bond Fund.

11 35. The four closed-end funds, the Select High Income Fund and the Intermediate
12 Bond Fund were all highly correlated. However, MKC provided limited guidance to the FAs
13 regarding limiting concentrations of combinations of the Funds in non-managed accounts.

14 36. Up until six (6) months before the collapse of the fund, WMS classified the
15 Intermediate Bond Fund as "Core Plus" in the Fixed Income section of the Select List. At that
16 time it was reclassified as "Alternative Fixed Income" in the Non-Traditional section of the
17 Select List. Yet MKC's concentration for many of its non-WMS managed accounts continued to
18 be above twenty percent (20%) which could indicate its use as a core holding. An e-mail chain
19 from Gary S. Stringer of WMS states as follows:
20

21 **From:** Stringer Gary [Gary.Stringer@morgankeegan.com]

22 **Sent:** Tuesday, May 15, 2007 4:10 PM

23 **To:** Hennek, Roderick

24 **Subject:** Re: RMK Intermediate Bond Fund

1 Rod,

2 I did notice that you didn't cc anyone on your email, and I appreciate that. We've always had good,
3 candid conversation.

4 You have a good point in that we have some low correlation equity strategies on the Traditional
5 side. What worries me about this bond fund is the tracking error and the potential risks associated
6 with all that asset-backed exposure. **Mr & Mrs Jones don't expect that kind of risk from their
7 bond funds. The bond exposure is not supposed to be where you take risks. I'd bet that most
8 of the people who hold that fund have no idea what's it's actually invested in. I'm just as
9 sure that most of our FAs have no idea what's in that fund either.** They think the return are
10 great because the PM is so smart. He definitely is smart, but it's the same as thinking your small
11 cap manager is a hero because he beat the S&P for the last 5 years.

12 **If people are using RMK as their core, or only bond fund, I think it's only a matter of time
13 before we have some very unhappy investors.**

14 (Emphasis added.).

15 Certain MKC brokers and branch managers interviewed during the investigation stated that they
16 received limited or no guidance as to appropriate concentrations of the Funds to use within
17 clients' accounts.

18 **E. REQUIREMENT TO CONDUCT AN ADEQUATE AND THOROUGH
19 CORRESPONDENCE REVIEW**

20 37. An agent of MKC provided one known customer with a self-made chart assuming
21 the hypothetical growth of One Hundred Thousand Dollars (\$100,000.00) over five (5) years,
22 and comparing the rate of return on CDs to the return on the Intermediate Bond Fund. The chart
23 failed to address any risks of investing in the fund, save the caption "Not FDIC Insured."

24 38. The MKC agent referred to in the preceding paragraph created a sales illustration
25 in which he compared the returns for the Intermediate Bond Fund to the returns for traditional
bank CDs. The agent used the illustration in order to market the Intermediate Bond Fund to bank
customers. The agent stated that he created the illustration and that the illustration was not

1 reviewed or approved by appropriate supervisory personnel of MKC. The chart fails to address
2 any risks of investing in the Intermediate Bond Fund, save the caption “Not FDIC Insured.”

3 **F. SUPERVISION**

4 39. Carter Anthony, President of MAM from 2001 until the end of 2006, has testified
5 under oath that he conducted performance reviews of all MAM mutual fund managers that
6 included reviews of their portfolios and trading. However, he testified that he did not conduct
7 the same supervisory review and oversight of Kelsoe and the Funds because he was instructed to
8 “leave Kelsoe alone.” MAM denies that any such instruction was given.

9 40. In December 2001, Kelsoe signed a new account form as branch manager, when
10 he, in fact, was never a branch manager nor held any supervisory/compliance licenses. Proper
11 supervision of Kelsoe’s activities would have detected such an unauthorized action on his part.

12 **G. MAINTENANCE OF REQUIRED BOOKS AND RECORDS**

13 41. MAM’s Fund Management fundamental and qualitative research was touted in
14 marketing and research material.

15 42. MAM, through its Portfolio Managers, selected securities for investments by the
16 Funds' portfolios. MAM was consulted regarding the fair valuation of certain securities held by
17 the portfolios. Adequate documentation was not retained as to pricing adjustments
18 recommended by MAM to be made to certain of the securities.

19 43. WMS performed annual due diligence reviews of certain of the Funds and Fund
20 management (MAM and Kelsoe). In mid-2007, MAM and Kelsoe did not provide sufficient
21 information to allow completion of the 2007 annual due diligence review conducted by MKC
22

1 through WMS. Kelsoe did not make himself available for a meeting during normal operating
2 hours, further delaying the completion of WMS's on-site due diligence review. As a
3 consequence, the report for two of the open-end funds was not completed. By August 2007,
4 WMS dropped coverage of proprietary products and a report for 2007 was never released to the
5 MKC sales force.

6 **H. RESPONSIBILITIES AND CONDUCT OF JAMES KELSOE**

7 44. In addition to his duties regarding management of the Funds and selection of
8 investments, Kelsoe was responsible for reviewing information regarding holdings of the Funds
9 to be included in marketing materials and filings with the SEC. Kelsoe also was responsible for
10 supervising his staff's involvement with these processes, as well as their interaction with third
11 parties. Kelsoe had the most knowledge at MAM about the nature of the holdings of the Funds,
12 including the types of securities being purchased or sold for the Funds, the risks associated with
13 the holdings, and the correlation of the holdings among the Funds. Kelsoe and his staff provided
14 information for the preparation of regulatory filings, marketing materials, reports and
15 communications about the Funds. Kelsoe contributed to and delivered commentaries for the
16 Funds and management discussions of fund performance. The SEC filings for the Funds, for
17 which Kelsoe and his staff furnished information regarding holdings of each of the Funds, were
18 provided to Kelsoe for his review prior to filing.
19

20 45. Kelsoe contributed to and was aware of the usage of the glossies and certain other
21 marketing materials for the Funds by MAM, as described above, including the descriptions of the
22
23

1 Funds, the allocation pie charts, the use of benchmarks, and characterizations of risks and
2 features of the Funds.

3 46. Kelsoe's involvement in the fair valuation process for securities held by the Funds
4 during the period from January 1, 2007 to July 31, 2007, including influencing some dealer
5 confirmations that were returned, contributed to certain inaccurate valuations of selected
6 holdings on various dates during that period.

7 47. From January 1, 2007 through July 31, 2007, Kelsoe did not retain documentation
8 relating to his recommendations of price changes of certain securities held by the Funds. These
9 recommendations were used on occasion in the calculation of the daily net asset values of the
10 Funds.

11 48. From January 1, 2007 through July 31, 2007, Kelsoe failed to review and approve
12 certain emails and other communications of his staff that characterized the downturn of the
13 market for certain securities contained within the Funds as a "buying opportunity," which were
14 circulated to certain MKC FAs.
15

16
17 **III.**

18 **CONCLUSIONS OF LAW**

19 1. The Securities Division of the Washington State Department of Financial
20 Institutions is responsible for the enforcement of laws governing the issuance, sale, and other
21 transactions relative to securities pursuant to the Securities Act of Washington.
22

1 2. In violation of RCW 21.20.110(g) and/or RCW 21.20.020(c) and WAC 460-24A-
2 220, MKC and MAM conducted and participated in the following practices:

- 3 a. MAM failed to adequately disclose in quarterly, semi-annual and annual
4 reports filed with the SEC prior to late 2007 some of the risks associated
5 with investment in the Funds.
- 6 b. In SEC disclosure filings, MAM classified approximately Four Hundred
7 Million Dollars (\$400,000,000.00) of asset-backed securities as corporate
8 bonds and preferred stocks, when they were the lower tranches of asset-
9 backed structured debt instruments.
- 10 c. MKC and MAM used industry benchmarks not directly comparable to the
11 Funds.
- 12 d. In certain marketing and disclosure materials, MKC and MAM did not
13 correctly characterize the Funds and their holdings.
- 14 e. In certain instances, MKC and MAM failed to adequately disclose to retail
15 customers the Funds' risks of volatility and illiquidity.
- 16 f. In certain instances, MKC, through some of its FAs, inappropriately
17 compared the returns of the Intermediate Bond Fund to the returns of
18 certificates of deposit and other low risk investments.
- 19 g. In certain marketing materials, MKC and MAM used charts and visual
20 aids that demonstrated a level of diversification in the Funds that did not
21 exist.

22 3. In violation of RCW 21.20.110(1)(j), MKC and/or MAM failed to reasonably
23 supervise their agents, employees and associated persons in the following manner:

- 24 a. In certain instances, MKC and MAM allowed the Funds' manager,
25 Kelsoe, to operate outside of the firm organizational supervisory structure.
- b. In certain instances, MAM and MKC failed to perform adequate
supervisory reviews of Kelsoe.

- 1 c. MKC, through WMS, and MAM failed to perform sufficient due diligence
2 reviews of the Funds.
3
4 d. MAM and MKC allowed Kelsoe to improperly influence the net asset
5 value calculations of the Funds in certain instances during the period from
6 January through July of 2007.
7
8 e. MKC failed to assure adequate training and supervision of certain agents
9 in the composition and true nature of the funds.
10
11 f. MKC allowed agents to recommend (or in discretionary accounts, to
12 purchase) an overconcentration of the Funds in some client accounts.

13 4. In violation of RCW 21.20.702, MKC and MAM failed to make suitable
14 recommendations to some investors as demonstrated by the following:

- 15 a. MKC allowed agents to recommend (or in discretionary accounts, to
16 purchase) an overconcentration of the Funds in some client accounts.
17
18 b. MAM and MKC recommended and sold the Intermediate Bond Fund and
19 the Short Term Bond Fund to clients as a low risk, stable principal, liquid
20 investment opportunity.
21
22 c. In a number of instances, MKC sold or recommended investments to retail
23 investors without determining the risk tolerances of the investors.

24 5. In violation of RCW 21.20.110(1)(j), MKC failed to enforce their supervisory
25 procedures in the following manner:

- a. MKC failed to review certain customer accounts for over concentration
and proper diversification.
b. MKC failed to adequately determine suitability of the Funds as it related
to the investment needs of certain of their clients.

6. In violation of RCW 21.20.110(1)(j), MKC and/or MAM in many instances failed
to review correspondence and marketing materials used by associated persons to sell the Funds:

- 1 a. MKC failed to discover that an agent used a comparison of the return of
the Intermediate Bond Fund to the returns of a bank certificate of deposit.
- 2 b. MAM and MKC allowed marketing materials containing inaccurate
3 representations relating to the composition of the Funds to be used by their
agents.
- 4 c. MAM and MKC allowed marketing materials that represented that no
5 derivative products were contained in the Select Intermediate Fund to be
6 used by agents, when in fact some derivative products were contained in
the Fund.

7 7. In violation of RCW 21.20.702, in certain cases, MAM and MKC inappropriately
8 recommended the purchase of the Funds for client portfolios without reasonable justification that
9 said recommendation was suitable for the client.

10 8. In violation of RCW 21.20.020(c) and/or RCW 21.20.110(g), MKC and MAM
11 distributed marketing and/or disclosure materials that were inaccurate:

- 12 a. MAM failed to adequately disclose in quarterly, semi-annual and annual
13 reports filed with the SEC prior to late 2007 some of the risks associated
with investment in the Funds.
- 14 b. In SEC disclosure filings, MAM classified approximately Four Hundred
15 Million Dollars (\$400,000,000.00) of asset-backed securities as corporate
16 bonds and preferred stocks, when they were the lower tranches of asset-
backed structured debt instruments.
- 17 c. MKC and MAM used industry benchmarks not directly comparable to the
18 Funds.
- 19 d. In certain marketing and disclosure materials, MKC and MAM did not
20 correctly characterize the Funds and their holdings.
- 21 e. In certain instances, MKC, through some of its FAs, inappropriately
22 compared the returns of the Intermediate Bond Fund to the returns of
23 certificates of deposit and other noncomparable lower risk investments.

1 could have been brought even had the violations asserted herein against MKC or MAM not
2 occurred, and (b) any claims by the Securities Division of the Washington State Department of
3 Financial Institutions arising from or relating to violations of the provisions contained in this
4 Consent Order. Nothing in this paragraph shall preclude the Securities Division of the
5 Washington State Department of Financial Institutions from opposing a request for expungement
6 by a past or present employee or other agent before a regulatory or self-regulatory entity, any
7 court of competent jurisdiction, or any hearing officer, under circumstances it deems appropriate.

8 2. This Consent Order is entered into for the purpose of resolving in full the
9 referenced multistate investigation with respect to Respondents who have executed this Consent
10 Order and any of their affiliates.

11 3. MKC and RIM (f/k/a MAM) will CEASE AND DESIST from violating the
12 Securities Act of Washington, and will comply with the Securities Act of Washington.

13 4. Pursuant to this Washington State Consent Order (No. S-11-0710-11-CO01) and
14 related Consent Orders of the states of Alabama (SC-2010-0016), South Carolina (File No.
15 08011), Kentucky (Agency Case No. 2010-AH-021/Administrative Action No. 10-PPC0267),
16 Tennessee (Docket No. 12.06-107077J/Order No. 11-005), and Mississippi (Administrative
17 Proceedings File No. S-08-0050), the offer of settlement in SEC Administrative Proceeding (File
18 No. 3-13847) (the "SEC Order") and the FINRA Letter of Acceptance, Waiver and Consent No.
19 2007011164502, MKC and RIM (f/k/a MAM) has or shall pay in resolution of all of these
20 matters, within ten (10) days of the entry of the SEC Order, the sum of Two Hundred Million
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1 Dollars (\$200,000,000.00) to be distributed as follows: 1) One Hundred Million Dollars
2 (\$100,000,000.00) to the SEC's Fair Fund to be established in this matter for the benefit of
3 investors in the Funds that are the subject of the SEC Order; and 2) One Hundred Million Dollars
4 (\$100,000,000.00) to a States' Fund to be established in this matter for the benefit of investors in
5 the Funds that are the subject of this Consent Order. Any costs, expenses, and charges
6 associated with the Fair Fund and States' Fund management and distributions shall be paid by
7 MKC and RIM (f/k/a MAM) and shall not diminish the fund corpus. The Fair Fund and the
8 States' Fund shall be distributed pursuant to distribution plans drawn up by the administrator(s)
9 ("Fair Fund Administrator" for the SEC's portion and "Fund Administrator" for the States'
10 portion). The administrator(s) are to be respectively chosen by a representative designated by
11 the state agencies of Alabama, Kentucky, Tennessee, South Carolina and Mississippi ("States'
12 Fund Representative"), and the SEC. Nothing in this paragraph shall require or limit the SEC's
13 and the States' choice of fund administrators which may or may not be the same entity or person
14 for both funds.
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16 5. MKC and RIM (f/k/a MAM) shall pay the sum of \$26,811.00 to the state of
17 Washington as a monetary penalty, which amount constitutes the state of Washington's share of
18 the state settlement amount of Ten Million Dollars (\$10,000,000.00). All funds shall be
19 delivered to the office of the Securities Division of the Washington State Department of
20 Financial Institutions within ten (10) days of the execution of this Consent Order. In the event
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1 another state securities regulator determines not to accept the settlement offer, the total amount
2 of the payment to the state of Washington shall not be affected.

3 6. If the payment is not made by MKC or RIM (f/k/a MAM), the Securities Division
4 of the Washington State Department of Financial Institutions may vacate this Consent Order, at
5 its sole discretion, upon thirty (30) days notice to MKC and/or RIM (f/k/a MAM), and, without
6 opportunity for an administrative hearing, enter a final order or decree if such default is not cured
7 to the satisfaction of the regulators within the thirty (30) day notice period. Any dispute related
8 to any payments required under this Consent Order shall be construed and enforced in
9 accordance with, and governed by, the laws of the state of Washington without regard to any
10 choice of law principles.

11 7. This Consent Order shall not disqualify MKC and RIM (f/k/a MAM), or any of
12 their affiliates or registered representatives, from any business that they otherwise are qualified
13 or licensed to perform under any applicable state law and is not intended to and shall not form
14 the basis for any disqualification or suspension in any state. Further, this Consent Order is not
15 intended to and shall not form the basis for any disqualifications contained in the federal
16 securities law, the rules and regulations thereunder, the rules and regulations of self-regulatory
17 organizations, or various states' securities laws including but not limited to any disqualifications
18 from relying upon the registration exemptions or safe harbor provisions.
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1 8. MKC, RIM (f/k/a MAM), and all of their existing and future affiliates and
2 subsidiaries are prohibited from creating, offering or selling a proprietary fund² that is a
3 registered investment company and is marketed and sold to investors other than institutional and
4 other qualified investors as defined in Section 3(a)(54) of the Securities Exchange Act of 1934,
5 15 U.S.C. § 78c(a)(54), (“proprietary fund”) for a period of two (2) years from June 21, 2011,
6 the date of entry of the first of the State Consent Orders to be entered in this matter. MKC, RIM
7 (f/k/a MAM), their affiliates or subsidiaries, may seek permission to resume offering or begin
8 offering a proprietary fund in the state of Washington after the lapse of the first year of the
9 prohibition, but may not proceed with the offer and sale of such proprietary fund in the state of
10 Washington prior to receiving the express written consent and approval of the Securities
11 Administrator of the Washington State Department of Financial Institutions.

12 9. In addition to any state regulatory audits or examinations authorized by the
13 Securities Act of Washington, the state regulatory authority may conduct appropriate audits or
14 examinations of the offices and branch offices of the Respondents MKC and RIM (f/k/a MAM).
15 Appropriate costs associated with such audits or examinations conducted within two (2) years
16 from the date of this Consent Order shall be borne by MKC and/or RIM (f/k/a MAM). This
17 provision in no way limits the assessment of costs by states which routinely assess registrants
18 with the costs of audits.
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22 ²Any such proprietary fund is specifically deemed to be subject to the oversight in paragraph 10.

1 10. If prior to January 1, 2016, MKC and/or RIM (f/k/a MAM) shall again form and
2 sell any proprietary investment products,³ they shall at that time retain, for a period of three (3)
3 years, at their own expense, an independent auditor, acceptable to the representative designated
4 by the state agencies of Alabama, Kentucky, Mississippi, Tennessee, and South Carolina
5 (“States’ Representative”) and the SEC. The independent auditor cannot be an affiliated entity
6 of MKC or RIM (f/k/a MAM). Further, to ensure the independence of the independent auditor,
7 MKC and/or RIM (f/k/a MAM): (a) shall not have the authority to terminate the independent
8 auditor without prior written approval of the States’ Representative; (b) shall not be in and shall
9 not have an attorney-client relationship with the independent auditor and shall not seek to invoke
10 the attorney-client or any other privilege or doctrine to prevent the independent auditor from
11 transmitting any information, reports, or documents to the States; and (c) during the period of
12 engagement and for a period of two (2) years after the engagement, shall not enter into any
13 employment, customer, consultant, attorney-client, auditing, or other professional relationship
14 with the independent auditor.
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19 ³ The term “proprietary investment product” or “proprietary product” or “proprietary fund,” as used in this Consent
20 Order, refers to those investment products or offerings which MKC and/or RIM (f/k/a MAM) have created or may
21 create and for which they or any of their existing or future affiliates is the issuer and lead underwriter. This
22 definition, however, shall not apply to proprietary products or offerings in existence at the time of affiliation with
23 MKC or RIM (f/k/a MAM) through any future acquisition, merger or other form of business combination with an
24 entity not currently under common control with MKC or RIM (f/k/a MAM). Nor shall this definition apply to future
25 proprietary products or offerings that are created following such acquisition, merger or other form of business
combination, unless such proprietary products are created by MKC or RIM (f/k/a MAM).

1 The scope of the independent auditor's engagement shall be approved by the States'
2 Representative prior to the commencement of the audit, and shall include, but is not limited to,
3 reviews and examinations of:

- 4 a. All firm policies and procedures, relating to proprietary products and/or
5 proprietary offerings including, but not limited to, supervisory, books and
6 records, compliance and document retention policies and procedures;
- 7 b. The composition of each proprietary fund sold or recommended to clients
8 at least annually;
- 9 c. All proprietary product and/or proprietary offering marketing materials
10 used or distributed by their agents, representatives, or other employees or
11 affiliates, at least quarterly;
- 12 d. Potential/actual conflicts of interest with any affiliates, including Regions
13 Morgan Keegan Trust, F.S.B., MKC and RIM (f/k/a MAM), or affiliated
14 persons/control persons. Said review shall be annual unless an increased
15 frequency is deemed necessary by state, federal, and SEC entities; and
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17 11. Further, the independent auditor shall:

- 18 a. Consult with the States' Representative and the SEC about areas of
19 concern prior to entering into an engagement document with MKC and
20 RIM (f/k/a MAM);
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- 1 b. Draft and provide reports as often as may be agreed upon by the States’
2 Representative and the independent auditor with an assessment of the
3 status, compliance, and recommendations pertaining to the organizational,
4 procedural, and policy issues that are the subject of the engagement;
- 5 c. Simultaneously distribute copies of the reports from paragraph 12b above
6 to MKC, RIM (f/k/a MAM), the States’ Representative and the SEC; the
7 States’ Representative may distribute the report to NASAA members as
8 the States’ Representative deems appropriate. These reports will be
9 deemed confidential and, upon receipt of any legal process or request
10 pursuant to a state’s public information statute or a federal Freedom of
11 Information Act (“FOIA”) request for access, the state regulator shall
12 promptly notify MKC and/or RIM (f/k/a MAM), in order that the
13 Respondents have an opportunity to challenge the release of the
14 information;
- 15 d. Submit copies of all drafts, notes, and other working papers to coincide
16 with the issuance of the reports;
- 17 e. Issue recommendations for changes to policies, procedures, compliance,
18 books and records retention programs, and all other areas that are the
19 subject of the engagement;
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- 1 f. Establish reasonable deadlines for the implementation of the
2 recommendations provided in the report; and
- 3 g. For any recommendations noted but not included in the final report,
4 provide justification for excluding the recommendation from the final
5 report.

6 12. MKC and RIM (f/k/a MAM) shall:

- 7 a. Review the reports submitted by the independent auditor;
- 8 b. Within sixty (60) days of the issuance of an audit report, submit, in
9 writing, to the States' Representative and the SEC any objections to
10 implementation of any of the recommendations made by the independent
11 auditor;
- 12 c. If no objection to a recommendation is made within the sixty (60) day
13 deadline, the recommendation will be implemented within the time frame
14 established for the recommendation by the independent auditor in the
15 report; and
- 16 d. If objection is timely made to a recommendation, the States'
17 Representative and the SEC will consider the objections, review the
18 recommendation and determine jointly whether implementation shall be
19 required over the objections of MKC and RIM (f/k/a MAM).
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1 13. MKC and RIM (f/k/a MAM) hereby confirm that they retained within sixty (60)
2 days of the entry of the first of the State Consent Orders in this matter, at their own expense, an
3 independent consultant (“Consultant”), acceptable to the States’ Representative and the SEC.
4 The Consultant’s engagement includes the review of MKC’s and/or RIM’s (f/k/a MAM): (i)
5 current written supervisory and compliance procedures concerning product suitability; (ii)
6 current written supervisory and compliance procedures regarding recommendations and
7 disclosures relating to registered investment companies; (iii) current written supervisory and
8 compliance procedures relating to advertising and sales literature regarding the purchase and sale
9 of registered investment companies; and (iv) the implementation and effectiveness of (i) through
10 (iii); provided that the lookback period for (i) through (iii) shall not exceed the twelve (12)
11 month period prior to June 21, 2011.

- 12 a. Within one hundred twenty (120) days after the entry of this Consent
13 Order, the Consultant shall have made an Initial Report with
14 recommendations thereafter on such policies and procedures and their
15 implementation and effectiveness. The Initial Report shall describe the
16 review performed and the conclusions reached, and will include any
17 recommendations for reasonable changes to policies and procedures.
18 MKC and RIM (f/k/a MAM) shall direct the Consultant to submit the
19 Initial Report and recommendations to the States’ Representative and the
20 SEC at the same time it is submitted to MKC and RIM (f/k/a MAM).

- 1 b. The parties hereto recognize that the Consultant will have access to
2 privileged or confidential trade secrets and commercial or financial
3 information and customer identifying information the public dissemination
4 of which could place MKC and RIM (f/k/a MAM) at a competitive
5 disadvantage and expose their customers to unwarranted invasions of their
6 personal privacy. Therefore, it is the intention of the parties that such
7 information shall remain confidential and protected, and shall not be
8 disclosed to any third party, except to the extent provided by applicable
9 FOIA statutes or other regulations or policies.
- 10 c. Within thirty (30) days of receipt of the Initial Report, MKC and RIM
11 (f/k/a MAM) shall respond in writing to the Initial Report. In such
12 response, MKC and RIM (f/k/a MAM) shall advise the Consultant, the
13 States' Representative, and the SEC, on the recommendations from the
14 Initial Report that MKC and RIM (f/k/a MAM) have determined to accept
15 and the recommendations that they consider to be unduly burdensome.
16 With respect to any recommendation that MKC and RIM (f/k/a MAM)
17 deem unduly burdensome, MKC and RIM (f/k/a MAM) may propose an
18 alternative policy, procedure or system designed to achieve the same
19 objective or purpose.
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1 d. MKC and RIM (f/k/a MAM) shall attempt in good faith to reach
2 agreement with the Consultant within sixty (60) days of the date of the
3 receipt of the Initial Report with respect to any recommendation that MKC
4 and RIM (f/k/a MAM) deem unduly burdensome. If the Consultant and
5 MKC and RIM (f/k/a MAM) are unable to agree on an alternative
6 proposal, MKC and RIM (f/k/a MAM) shall submit, in writing, to the
7 States' Representative and the SEC, their objections and any alternative
8 proposal(s) made to the Consultant, and the States' Representative and the
9 SEC shall determine jointly whether implementation shall be required
10 over the objections of MKC and RIM (f/k/a MAM) or whether to accept
11 the alternative proposal(s). Within ninety (90) days of the date of the
12 receipt of the Initial Report or, in instances in which an alternative
13 proposal is submitted, ninety (90) days from a joint decision by the States'
14 Representative and the SEC regarding any objectionable portions of the
15 Initial Report, MKC and RIM (f/k/a MAM) shall, in writing, advise the
16 Consultant, the States' Representative, and the SEC of the
17 recommendations and proposals that they are adopting.

19 e. No later than one (1) year after the date of the Consultant's Initial Report,
20 MKC and RIM (f/k/a MAM) shall cause the Consultant to complete a
21 follow-up review of MKC's and RIM's (f/k/a MAM) efforts to implement
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1 the recommendations contained in the Initial Report, and MKC and RIM
2 (f/k/a MAM) shall cause the Consultant to submit a Final Report to the
3 States' Representative, and the SEC. The Final Report shall set forth the
4 details of MKC's and RIM's (f/k/a MAM) efforts to implement the
5 recommendations contained in the Initial Report, and shall state whether
6 MKC and RIM (f/k/a MAM) have fully complied with the
7 recommendations in the Initial Report.

8 f. MKC and RIM (f/k/a MAM) shall cause the Consultant to complete the
9 aforementioned review and submit a written Final Report to MKC, RIM
10 (f/k/a MAM), the States' Representative, and the SEC within three
11 hundred sixty (360) days of the date of the Initial Report. The Final
12 Report shall recite the efforts the Consultant undertook to review MKC's
13 and RIM's (f/k/a MAM) policies, procedures, and practices; set forth the
14 Consultant's conclusions and recommendations; and describe how MKC
15 and RIM (f/k/a MAM) are implementing those recommendations.

17 g. To ensure the independence of the Consultant, MKC and/or RIM (f/k/a
18 MAM): (a) shall not have the authority to terminate the Consultant
19 without prior written approval of the States' Representative; (b) shall
20 compensate the Consultant, and persons engaged to assist the Consultant,
21 for services rendered pursuant to this Order at their reasonable and
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1 customary rates; (c) shall not be in and shall not have an attorney-client
2 relationship with the Consultant and shall not seek to invoke the attorney-
3 client or any other privilege or doctrine to prevent the Consultant from
4 transmitting any information, reports, or documents to the States; and (d)
5 during the period of engagement and for a period of two (2) years after the
6 engagement, shall not enter into any employment, customer, consultant,
7 attorney-client, auditing, or other professional relationship with the
8 Consultant. Notwithstanding the foregoing, the Consultant may serve as a
9 Consultant for both MKC and RIM (f/k/a MAM).

10 14. MKC and RIM (f/k/a MAM) shall provide, for a period of three (3) years from
11 June 21, 2011, to all of their registered agents and investment adviser representatives,
12 mandatory, comprehensive, and ongoing (i) product/offering training on each of the proprietary
13 products/offerings that they sell or recommend to clients, and (ii) training on suitability and risks
14 of investments generally. The training required pursuant to this paragraph shall be in addition to
15 any continuing education training required to maintain the registrations of the registered agents
16 and investment adviser representatives and shall include, at a minimum, training on all of the
17 following:
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- 19 a. Suitability as it applies to the various types of products/offerings,
20 proprietary or otherwise, the FA sells at MKC;
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- 1 b. The type and nature of the holdings and risks attendant thereto in any
2 proprietary product/offering sold by the firm, for which the firm or any
3 affiliate purchased the underlying holdings, that the registered person will
4 be selling or recommending to clients;
- 5 c. The risks associated with the proprietary product/offering; and
- 6 d. Conflicts of interest that may arise as a result of the sale/recommendation
7 of the proprietary product/offering.

8 15. For training related to proprietary products/offerings, MKC and RIM (f/k/a
9 MAM) shall develop and implement course evaluations to be completed by each FA in order to
10 assess the effectiveness of the training.

11 16. MKC and RIM (f/k/a MAM) shall:

- 12 a. Maintain a log of each agent/representative's completed courses, copies of
13 which they shall provide to the States' Representative upon request;
- 14 b. Only allow agents/representatives to sell/recommend proprietary products
15 and/or proprietary offerings for which they have completed and verified
16 training;
- 17 c. Maintain an archive of all training material that may be accessed by
18 agents/representatives on an as-needed basis after training is completed,
19 copies of which they shall provide to the States' Representative upon
20 request;
- 21 request;

- 1 d. Maintain current training materials on proprietary products and/or
2 proprietary offerings being offered or sold to any of their clients, copies of
3 which they shall provide to the States' Representative upon request;
- 4 e. Maintain a manned product/offering help desk that is available to answer
5 questions from agents/representatives during regular business hours, the
6 person manning such shall be registered with a minimum of a Series 65 or 7
7 license or registration; and
- 8 f. Provide to the Securities Division of the Washington State Department of
9 Financial Institutions an annual certification that MKC and RIM (f/k/a
10 MAM) are in compliance with the required training and maintenance of
11 training materials.

12 17. One person shall not simultaneously hold the positions of General Counsel and
13 Chief Compliance Officer for either Respondent.

14 18. Nothing herein shall preclude the state of Washington, its departments, agencies,
15 boards, commissions, authorities, political subdivisions, and corporations (collectively "State
16 Entities"), other than the Securities Division of the Washington State Department of Financial
17 Institutions, and only to the extent set forth herein, from asserting any claims, causes of action, or
18 applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal,
19 or injunctive relief against MKC and RIM (f/k/a MAM) in connection with the marketing and
20 sales practices of the Funds at MKC or RIM (f/k/a MAM).

1 19. Any dispute or default other than related to the payment as referenced in
2 paragraph 6 related to this Consent Order shall be construed and enforced in accordance with,
3 and governed by, the laws of the state of Washington without regard to any choice of law
4 principles.

5 20. Except as delineated in paragraphs 41 through 43, this Consent Order is presumed
6 to be treated as a settlement for evidentiary purposes and not as evidence of either damage or
7 liability itself. MKC and RIM (f/k/a MAM) further agree that in the event they should enter
8 into a consent order prior to an adjudication on the merits with another State's securities
9 regulator which provides each investor a higher return of losses per invested dollar than under
10 the terms of this Consent Order, then the Securities Division of the Washington State
11 Department of Financial Institutions may, at its option, obtain the same payout of losses per
12 invested dollar for the investors of this State.

13 21. Respondents MKC and RIM (f/k/a MAM) agree not to make or permit to be made
14 any public statement denying, directly or indirectly, any finding in this Consent Order or creating
15 the impression that this Consent Order is without factual basis. Nothing in this Paragraph affects
16 MKC's or RIM's (f/k/a MAM): (i) testimonial obligations, or (ii) right to take legal or factual
17 positions in defense of litigation or arbitration or in defense of other legal proceedings in which
18 the Securities Division of the Washington State Department of Financial Institutions is not a
19 party.
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1 22. Nothing herein shall affect any statutory authority of the Securities Division of the
2 Washington State Department of Financial Institutions, including but not limited to, inspections,
3 visits, examinations, and/or the production of documents.

4 23. This Consent Order shall be binding upon MKC and RIM (f/k/a MAM), and their
5 successors and assigns, with respect to all conduct subject to the provisions above and all future
6 obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and
7 conditions.

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9 Dated and Entered this 13th day of September, 2012.

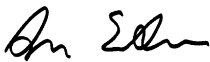
10 By:

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13 _____
14 William M. Beatty
15 Securities Administrator

16 Approved by:

Reviewed by:

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20 _____
21 Suzanne Sarason
22 Chief of Enforcement

23 _____
24 Robert Kondrat
25 Financial Legal Examiner Supervisor

Presented by:

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Bridgett Fisher
Enforcement Attorney

1 **CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY REGIONS INVESTMENT**
2 **MANAGEMENT, INC. (F/K/A MORGAN ASSET**
3 **MANAGEMENT, INC.) AND MORGAN KEEGAN & COMPANY, INC.**

4 Regions Investment Management, Inc. (f/k/a Morgan Asset Management, Inc.) and
5 Morgan Keegan & Company, Inc. (“Respondents”) hereby acknowledge that they have been
6 served with a copy of this Administrative Consent Order (“Consent Order”), have read the
7 foregoing Consent Order, are aware of each of their right to a hearing and appeal in this matter,
8 and have waived the same.

9 Respondents admit the jurisdiction of the Securities Division of the Washington State
10 Department of Financial Institutions; admit to the allegations in paragraphs 41 through 43 of
11 Section II, relating to the maintenance of books and records, but otherwise neither admit nor
12 deny any of the findings of fact, allegations, assertions or conclusions of law that have been
13 made herein in this proceeding; and Respondents further consent to entry of this Consent Order
14 by the Securities Division of the Washington State Department of Financial Institutions as
15 settlement of the issues contained in this Consent Order.

16 Respondents enter into this Consent Order voluntarily and represent that no threats,
17 offers, promises, or inducements of any kind have been made by the Securities Division of the
18 Washington State Department of Financial Institutions or any member, officer, employee, agent,
19 or representative of the Securities Division of the Washington State Department of Financial
20 Institutions to induce Respondents to enter into this Consent Order other than as set forth in the
21 Consent Order.

1 Brian B. Sullivan represents that he/she is President of Regions
2 Investment Management, Inc. (f/k/a Morgan Asset Management, Inc.) and that, as such, has been
3 authorized by Regions Investment Management, Inc. (f/k/a Morgan Asset Management, Inc.) to
4 enter into this Consent Order for and on behalf of Regions Investment Management, Inc. (f/k/a
5 Morgan Asset Management, Inc.)

6 James T. Ritt represents that he/she is General Counsel of Morgan
7 Keegan & Company, Inc. and that, as such, has been authorized by Morgan Keegan & Company,
8 Inc. to enter into this Consent Order for and on behalf of Morgan Keegan & Company, Inc.

9 Respondents agree that they shall not claim, assert, or apply for a tax deduction or tax
10 credit with regard to the state of Washington for any monetary penalty or restitution that
11 Respondents shall pay pursuant to this Consent Order. Respondents understand and
12 acknowledge that these provisions are not intended to imply that the Securities Division of the
13 Washington State Department of Financial Institutions would agree that any other amounts
14 Respondents shall pay pursuant to this Consent Order may be reimbursed or indemnified
15 (whether pursuant to an insurance policy or otherwise) under applicable law or may be the basis
16 for any tax deduction or tax credit with regard to any state, federal, or local tax.
17

18 Dated this 11 day of Sept, 2012.

19 Regions Investment Management, Inc. f/k/a
20 MORGAN ASSET MANAGEMENT, INC.

21 By: /s/ Brian B. Sullivan
22 Title: President

1 STATE OF Alabama)
2 County of Jefferson) ss.

3 SUBSCRIBED AND SWORN TO before me by Brian B. Sullivan, this
4 11 day of Sept, 2012.

5 /s/ Janice E. Hill
6 Notary Public

7 My commission expires:

8 12/13/2014

9 MORGAN KEEGAN & COMPANY, INC.

10 By: /s/ James T. Ritt
11 Title: General Counsel

12 STATE OF Tennessee)
13 County of Shelby) ss.

14 SUBSCRIBED AND SWORN TO before me by James T. Ritt, this
15 22nd day of Aug, 2012.

16 /s/ Vivian C. Ryan
17 Notary Public

18 My commission expires:

19 April 6, 2014