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STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING AND SECURITIES

In the matter of:)
MORGAN ASSET MANAGEMENT,) **ORDER NO: 11-0860-S**
INC.,)
(CRD No. 111715); and) **ADMINISTRATIVE CONSENT ORDER**
MORGAN KEEGAN & COMPANY,)
INC.,)
(CRD No. 4161))
Respondents.)
_____)

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

WHEREAS, Morgan Asset Management, Inc. (“MAM”) was at all relevant times herein a federally registered investment advisor and affiliate of MKC; and

WHEREAS, coordinated investigations into the activities of MKC and MAM, in connection with certain violations of the Alaska 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

WHEREAS, MKC and MAM have cooperated with the Task Force conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing Regulators with access to facts relating to the investigations; and

WHEREAS, MKC and MAM have advised the Regulators of their agreement to

1 resolve the investigations; and

2 WHEREAS, MKC and MAM elect to permanently waive any right to a hearing and
3 appeal under the Alaska Securities Act, Alaska Statute (“AS”) 45.55.920, the Administrative
4 Procedures Act, AS 44.62 and the Alaska Administrative Code (“AAC”) 3 AAC 08
5 Securities Regulations, with respect to this Administrative Consent Order (the “Consent
6 Order”); and

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

12 NOW, THEREFORE, the Department of Commerce, Community and Economic
13 Development, Division of Banking and Securities (Division), as administrator of the Alaska
14 Securities Act, hereby enters this Consent Order:

15 **I. RESPONDENTS AND PERSONS/ENTITIES**

16 **AFFILIATED WITH THE RESPONDENTS**

17 1. Respondent **Morgan Keegan & Company, Inc.** (“MKC”) (CRD No. 4161),
18 a Tennessee corporation, is a registered broker-dealer with the Division and the SEC, as well
19 as a federally registered investment adviser with the SEC. At all relevant times MKC was
20 properly registered with the Division. MKC was at all relevant times herein a wholly owned
21 subsidiary of Regions Financial Corporation (“RFC”) which is headquartered in
22 Birmingham, Alabama. MKC’s primary business address is 50 Front Street, Morgan Keegan
23 Tower, Memphis, Tennessee 38103-9980.

24

1 (collectively, the “Funds”).

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

12 7. The Funds were created and managed by Kelsoe, MAM Senior portfolio
13 manager. Kelsoe was also principally responsible for the purchase and sale of all of the
14 holdings in the Funds.

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

19 9. On January 19, 2007, WMS announced it was reclassifying the Intermediate
20 Bond Fund on the Select List from “Fixed Income” to “Non-Traditional Fixed Income.”
21 Meanwhile, WMS profiles for the Intermediate Bond Fund continued to label it as the
22 “Intermediate Gov’t/Corp Bond.”

23 10. Certain of the Funds’ annual, semi-annual, and quarterly reports filed with the

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

1 SEC did not adequately disclose the risks of subordinated tranches and the quantity of
2 subordinated tranches held within the Funds.

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

6 12. MKC, through WMS, produced quarterly Fund Profiles for the Intermediate
7 Bond Fund, the Select High Income Fund, and the Short Term Bond Fund that did not
8 adequately describe the risks of owning the lower tranches of structured debt instruments or
9 the quantity of such holdings within the Funds.

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

16 14. In SEC filings, MAM compared the four (4) closed-end funds and the Select
17 High Income Fund (collectively the "RMK high-yield funds"), which contained
18 approximately two-thirds (2/3) structured debt instruments, to the Lehman Brothers U.S.
19 High Yield Index ("Lehman Ba Index"). The Lehman Ba Index is not directly comparable
20 to the RMK high-yield funds given the fact that the Lehman Ba Index contained only
21 corporate bonds and no structured debt instruments.

22 15. Certain marketing materials and reports minimized the risks and volatility
23 associated with investing in funds largely comprised of structured debt instruments. In the
24 June 30, 2007 glossy, and in previous quarterly glossies created by MAM, MAM and MKC

1 marketed the Intermediate Bond Fund as a fund appropriate for “Capital Preservation &
2 Income.” MAM later revised the Intermediate Bond Fund glossy in September 2007 by
3 removing the caption “Capital Preservation & Income” and replacing it with “Income &
4 Growth,” and by removing the word “stability,” which had previously been used to describe
5 the fund.

6 16. The Intermediate Bond Fund glossies dated June 30, 2007, and September 30,
7 2007, stated that the Intermediate Bond Fund “...does not invest in speculative derivatives.”
8 However, the Intermediate Bond Fund did use derivatives, including interest-only strips, and
9 collateralized debt obligations (CDOs), which are derived from the mezzanine and lower
10 tranches of other debt securities.

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

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

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

1 continued during this period to advise FAs and investors to buy the Funds through, inter alia,
2 statements that characterized the 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
5 force, the senior portfolio manager for the Funds cited sub-prime fears and liquidity as the
6 primary factors for a decline in the net asset value of the Funds without fully explaining the
7 market impact on certain securities held by the Funds.

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

17 21. On July 31, 2007, WMS dropped coverage of all proprietary products, which
18 included the funds for which WMS could not produce a thorough report. This fact was not
19 disclosed in writing to the sales force until November 2007.

20 22. Based on WMS’s one (1) page, one (1) paragraph report of the August 18,
21 2006 on-site due diligence review, the due diligence visits by the WMS fixed income
22 analysts were not “detailed, thorough, and exhaustive,” as advertised by MKC. There are
23 two (2) WMS profiles of the Intermediate Bond Fund dated September 30, 2006. The
24 sections titled “investment philosophy” in the profile sheets contain substantial differences.

1 The first WMS profile for the Intermediate Bond Fund, based on the information for the
2 quarter ending September 30, 2006, is titled “Taxable Fixed Income.” The first profile, much
3 like previous quarterly profiles, does not refer to any of the holdings as “inferior tranches.”
4 Neither does it mention potential lack of demand and lack of liquidity. Further, it includes the
5 statement that “The fund does not use derivatives or leverage.”

6 23. WMS’s changing of the Intermediate Bond Fund profile label indicated
7 WMS’s inability and lack of supervision in the creation of these marketing pieces to
8 accurately categorize the Intermediate Bond Fund. Within one (1) quarter, WMS identified
9 the Intermediate Bond Fund three (3) different ways:

10 *September 30, 2006 - Taxable Fixed Income*
11 *September 30, 2006 - Enhanced Low Correlations Fixed Income*
12 *December 31, 2006 - Intermediate Gov’t/Corp Bond*

13 24. The “Gov’t/Corp Bond” label implied that the Intermediate Bond Fund
14 holdings were predominately government and corporate bonds carrying a certain degree of
15 safety. This improper labeling indicates a failure to conduct proper due diligence, a duty of
16 MKC.

17 25. In addition, all profiles for the Intermediate Bond Fund from March 31, 2006,
18 through June 30, 2007, stated that Kelsoe was joined by Rip Mecherle (“Mecherle”) as
19 assistant portfolio manager. Mecherle left MAM in 2004. The failure to detect the errors in
20 promotional materials relating to management does not reflect the “detailed, thorough, and
21 exhaustive due diligence” claimed by MKC in its sales and promotional material distributed
22 to investors.

22 **B. SUITABILITY OF RECOMMENDATIONS**

23 26. Respondent MAM indicated that risks and volatility were minimized in the
24 Intermediate Bond Fund portfolio. In the June 30, 2007 glossy, and previous quarterly

1 glossies created by MAM, Respondents marketed the Intermediate Bond Fund's broad
2 diversification of asset classes three (3) times on the first page of each of the glossies, when
3 in fact, approximately two-thirds (2/3) of the Intermediate Bond Fund portfolio was
4 composed of structured debt instruments which included risky assets. The four (4) closed-end
5 funds also advertised diversification among asset classes, despite the similarities in asset
6 classes as set forth in Section C below.

7 27. Furthermore, the glossies emphasized the Select High Income Fund's net asset
8 value as being less volatile than typical high-yield funds. The glossies failed to state that a
9 reason for any lower volatility was that the structured debt instruments within the Select
10 High Income Fund were not actively traded, and that the daily fair value adjustments of
11 certain holdings were imprecise in a market that became illiquid.

12 28. In certain cases, MKC and its sales force failed to obtain adequate suitability
13 information regarding risk tolerance that was necessary to determine suitability for using the
14 Funds for regular brokerage account customers. New account forms for regular brokerage
15 accounts provided a menu of four (4) investment objectives to choose from: Growth, Income,
16 Speculation, and Tax-Advantaged. Risk tolerance was not addressed by the form, was not
17 noted by the sales force whose records were examined during the investigation, and may not
18 have been taken into consideration when the sales force made its recommendations.

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

24 **C. ADVERTISEMENTS BY RESPONDENTS**

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

8 a. In the Intermediate Bond Fund glossy dated June 30, 2004, the Asset-Backed
9 Securities (ABS) and Commercial Mortgage Backed Securities (CMBS) are listed under a
10 single heading comprising seventy percent (70%) of the portfolio.

11 b. In the Intermediate Bond Fund glossy dated December 31, 2004, the pie chart
12 was revised and the ABS and CMBS are shown as separate categories, but together still
13 comprise seventy-six percent (76%) of the portfolio.

14 c. The Intermediate Bond Fund glossies dated March 31, 2005, show the ABS
15 category further split into six (6) categories that, together with CMBS, comprised seventy-
16 seven percent (77%) of the portfolio. Those six (6) categories were: “Manufactured Housing
17 Loans,” “Home Equity Loans,” “Franchise Loans,” “Collateralized Debt Obligations,”
18 “Collateralized Equipment Leases,” and “Other.” Subsequent glossies continue to show the
19 ABS split into six (6) categories.

20 d. In the Select High Income Fund glossy dated June 30, 2004, the ABS and
21 CMBS are listed under a single heading comprising sixty percent (60%) of the portfolio.

22 e. In the Select High Income Fund glossy dated December 31, 2004, the pie
23 chart was revised and the ABS and CMBS are shown as separate categories, but together still
24

1 comprise fifty-nine percent (59%) of the portfolio.

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

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

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

12 33. Respondent MKC used different index comparisons in the Select High
13 Income Fund “Profile” sheets produced by WMS. These profile sheets compared the Select
14 High Income Fund to the Credit Suisse First Boston High Yield Index, as well as the Merrill
15 Lynch US High Yield Cash BB Index. These two indices only contain corporate bonds and
16 no structured debt instruments. The Select High Income Fund contained substantially
17 different risks than the portfolios within either of the two indices, and therefore these
18 benchmarks were not directly comparable.

19 **D. REQUIRED EXAMINATIONS OF CUSTOMER ACCOUNTS TO DETECT**
20 **AND PREVENT IRREGULARITIES OR ABUSES**

21 34. While the models for WMS managed accounts limited the use of the
22 Intermediate Bond Fund to certain percentages, usually no more than fifteen percent (15%)
23 of any client’s portfolio, there was no such limitation for non-managed accounts.
24 Additionally, no guidance was provided to the FAs regarding limiting concentrations of the

1 Intermediate Bond Fund in non-managed accounts. As a result, certain customer accounts
2 contained in excess of a twenty percent (20%) concentration of the Intermediate Bond Fund.

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

6 36. Up until six (6) months before the collapse of the fund, WMS classified the
7 Intermediate Bond Fund as "Core Plus" in the Fixed Income section of the Select List. At
8 that time it was reclassified as "Alternative Fixed Income" in the Non-Traditional section of
9 the Select List. Yet MKC's concentration for many of its non-WMS managed accounts
10 continued to be above twenty percent (20%) which could indicate its use as a core holding.

11 An e-mail chain from Gary S. Stringer of WMS states as follows:

12 From: Stringer Gary [Gary.Stringer@morgankeegan.com]
13 Sent: Tuesday, May 15, 2007 4:10 PM
14 To: Hennek, Roderick
15 Subject: Re: RMK Intermediate Bond Fund

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

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

28 **If people are using RMK as their core, or only bond fund, I think it's only a matter of
29 time before we have some very unhappy investors.**(Emphasis added.).

30 Certain MKC brokers and branch managers interviewed during the investigation stated that
31 they received limited or no guidance as to appropriate concentrations of the Funds to use

1 within clients' accounts.

2 **E. REQUIREMENT TO CONDUCT AN ADEQUATE AND THOROUGH**
3 **CORRESPONDENCE REVIEW**

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

9 38. The MKC agent referred to in the preceding paragraph created a sales
10 illustration in which he compared the returns for the Intermediate Bond Fund to the returns
11 for traditional bank CDs. The agent used the illustration in order to market the Intermediate
12 Bond Fund to bank customers. The agent stated that he created the illustration and that the
13 illustration was not reviewed or approved by appropriate supervisory personnel of MKC. The
14 chart fails to address any risks of investing in the Intermediate Bond Fund, save the caption
15 "Not FDIC Insured."

16 **F. SUPERVISION**

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

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

1 his part.

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

3 41. MAM's Fund Management fundamental and qualitative research was touted
4 in marketing and research material.

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

9 43. WMS performed annual due diligence reviews of certain of the Funds and
10 Fund management (MAM and Kelsoe). In mid-2007, MAM and Kelsoe did not provide
11 sufficient information to allow completion of the 2007 annual due diligence review
12 conducted by MKC through WMS. Kelsoe did not make himself available for a meeting
13 during normal operating hours, further delaying the completion of WMS's on-site due
14 diligence review. As a consequence, the report for two of the open-end funds was not
15 completed. By August 2007, WMS dropped coverage of proprietary products and a report
16 for 2007 was never released to the MKC sales force.

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

18 44. In addition to his duties regarding management of the Funds and selection of
19 investments, Kelsoe was responsible for reviewing information regarding holdings of the
20 Funds to be included in marketing materials and filings with the SEC. Kelsoe also was
21 responsible for supervising his staff's involvement with these processes, as well as their
22 interaction with third parties. Kelsoe had the most knowledge at MAM about the nature of
23 the holdings of the Funds, including the types of securities being purchased or sold for the
24 Funds, the risks associated with the holdings, and the correlation of the holdings among the

1 Funds. Kelsoe and his staff provided information for the preparation of regulatory filings,
2 marketing materials, reports and communications about the Funds. Kelsoe contributed to
3 and delivered commentaries for the Funds and management discussions of fund performance.
4 The SEC filings for the Funds, for which Kelsoe and his staff furnished information
5 regarding holdings of each of the Funds, were provided to Kelsoe for his review prior to
6 filing.

7 45. Kelsoe contributed to and was aware of the usage of the glossies and certain
8 other marketing materials for the Funds by MAM, as described above, including the
9 descriptions of the Funds, the allocation pie charts, the use of benchmarks, and
10 characterizations of risks and features of the Funds.

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

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

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

23 III. CONCLUSIONS OF LAW

24 1. The Division is responsible for the enforcement of laws governing the

1 issuance, sale, and other transactions relative to securities pursuant to AS 45.55.905 and
2 45.55.980.

3 2. In violation of AS 45.55.060(a)(7)², MKC and/or MAM conducted and
4 participated in the following practices:

5 a. MAM failed to adequately disclose in quarterly, semi-annual and annual
6 reports filed with the SEC prior to late 2007 some of the risks associated with investment in
7 the Funds.

8 b. In SEC disclosure filings, MAM classified approximately Four Hundred
9 Million Dollars (\$400,000,000.00) of asset-backed securities as corporate bonds and
10 preferred stocks, when they were the lower tranches of asset-backed structured debt
11 instruments.

12 c. MKC and MAM used industry benchmarks not directly comparable to the
13 Funds.

14 d. In certain marketing and disclosure materials, MKC and MAM did not
15 correctly characterize the Funds and their holdings.

16 e. In certain instances, MKC and MAM failed to adequately disclose to retail
17 customers the Funds' risks of volatility and illiquidity.

18 f. In certain instances, MKC, through some of its FAs, inappropriately compared
19 the returns of the Intermediate Bond Fund to the returns of certificates of deposit and other
20 low risk investments.

21 g. In certain marketing materials, MKC and MAM used charts and visual aids
22 that demonstrated a level of diversification in the Funds that did not exist.

23 ² Certain statutes within the Securities Act require willful conduct for a violation to be actionable, but, as with
24 federal securities laws, a "willful violation" means merely "that the person charged with the duty knows what he
is doing." *Wonsover v. SEC*, 205 F.3d 408, 413 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F2d 969, 977 (D.C.
Cir. 1949).

1 3. In violation of AS 45.55.060(b)(1), MKC and/or MAM failed to reasonably
2 supervise their agents, employees and associated persons in the following manner:

3 a. In certain instances, MKC and MAM allowed the Funds' manager, Kelsoe, to
4 operate outside of the firm organizational supervisory structure.

5 b. In certain instances, MAM and MKC failed to perform adequate supervisory
6 reviews of Kelsoe.

7 c. MKC, through WMS, and MAM failed to perform sufficient due diligence
8 reviews of the Funds.

9 d. MAM and MKC allowed Kelsoe to improperly influence the net asset value
10 calculations of the Funds in certain instances during the period from January through July of
11 2007.

12 e. MKC failed to assure adequate training and supervision of certain agents in
13 the composition and true nature of the funds.

14 f. MKC allowed agents to recommend (or in discretionary accounts, to
15 purchase) an overconcentration of the Funds in some client accounts.

16 4. In violation of AS 45.55.023(a)(1) and 45.55.025(3), MKC and/or MAM
17 failed to make suitable recommendations to some investors as demonstrated by the
18 following:

19 a. MKC allowed agents to recommend (or in discretionary accounts, to
20 purchase) an overconcentration of the Funds in some client accounts.

21 b. MAM and MKC recommended and sold the Intermediate Bond Fund and the
22 Short Term Bond Fund to clients as a low risk, stable principal, liquid investment
23 opportunity.

24 c. In a number of instances, MKC sold or recommended investments to retail

1 investors without determining the risk tolerances of the investors.

2 5. In violation of AS 45.55.023(a)(1) and AS 45.55.025(3) MKC failed to
3 enforce their supervisory procedures in the following manner:

4 a. MKC failed to review certain customer accounts for over concentration and
5 proper diversification.

6 b. MKC failed to adequately determine suitability of the Funds as it related to
7 the investment needs of certain of their clients.

8 6. In violation of AS 45.55.060(a)(7), MKC and/or MAM in many instances
9 failed to review correspondence and marketing materials used by associated persons to sell
10 the Funds:

11 a. MKC failed to discover that an agent used a comparison of the return of the
12 Intermediate Bond Fund to the returns of a bank certificate of deposit.

13 b. MAM and MKC allowed marketing materials containing inaccurate
14 representations relating to the composition of the Funds to be used by their agents.

15 c. MAM and MKC allowed marketing materials that represented that no
16 derivative products were contained in the Select Intermediate Fund to be used by agents,
17 when in fact some derivative products were contained in the Fund.

18 7. In violation of AS 45.55.023(a)(1) and AS 45.55.025(3), in certain cases,
19 MAM and MKC inappropriately recommended the purchase of the Funds for client
20 portfolios without reasonable justification that said recommendation was suitable for the
21 client.

22 8. In violation of AS 45.55.060(a)(7), MKC distributed marketing materials and
23 MAM distributed disclosure materials that were inaccurate:

24 a. MAM failed to adequately disclose in quarterly, semi-annual and annual

1 Division of the settlement offer and payments referenced in this Consent Order shall be in
2 satisfaction of and preclude any action that the Division could commence under applicable
3 Alaska law against the foregoing; provided however, that excluded from and not covered by
4 this paragraph are (a) individual sales practice violations that could have been brought even
5 had the violations asserted herein against MKC or MAM not occurred, and (b) any claims by
6 the Division arising from or relating to violations of the provisions contained in this Consent
7 Order. Nothing in this paragraph shall preclude the Division from opposing a request for
8 expungement by a past or present employee or other agent before a regulatory or self-
9 regulatory entity, any court of competent jurisdiction, or any hearing officer, under
10 circumstances it deems appropriate.

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

14 3. MKC and MAM will CEASE AND DESIST from violating the Act, and will
15 comply with the Act.

16 4. Pursuant to this Alaska Consent Order (No. 11-0860-S) and related Consent
17 Orders of the states of Alabama (SC-2010-0016), South Carolina (File No.: 08011),
18 Kentucky (Agency Case No.: 2010-AH-021/Administrative Action No.: 10-PPC0267),
19 Tennessee Consent Order (Docket No.: 12.06-107077J/Order No. 11-005), and Mississippi
20 (Administrative Proceedings File No. S-08-0050), the offer of settlement in SEC
21 Administrative Proceeding (File No. 3-13847) (the "SEC Order") and the FINRA Letter of
22 Acceptance, Waiver and Consent No. 2007011164502, MKC and MAM has or shall pay in
23 resolution of all of these matters, within ten (10) days of the entry of the SEC Order the sum
24 of Two Hundred Million Dollars (\$200,000,000.00) to be distributed as follows: 1) One

1 Hundred Million Dollars (\$100,000,000.00) to the SEC's Fair Fund to be established in this
2 matter for the benefit of investors in the Funds that are the subject of the SEC Order; and 2)
3 One Hundred Million Dollars (\$100,000,000.00) to a States' Fund to be established in this
4 matter for the benefit of investors in the Funds that are the subject of this Consent Order.

5 Any costs, expenses, and charges associated with the Fair Fund and States' Fund
6 management and distributions shall be paid by MKC and MAM and shall not diminish the
7 fund corpus. The Fair Fund and the States' Fund shall be distributed pursuant to distribution
8 plans drawn up by the administrator(s) ("Fair Fund Administrator" for the SEC's portion and
9 "Fund Administrator" for the States' portion). The administrator(s) are to be respectively
10 chosen by a representative designated by the state agencies of Alabama, Kentucky,
11 Tennessee, South Carolina and Mississippi ("States' Fund Representative"), and the SEC.

12 Nothing in this paragraph shall require or limit the SEC's and the States' choice of fund
13 administrators which may or may not be the same entity or person for both funds.

14 5. MKC and MAM shall pay the sum of \$3,000 to the State of Alaska as a
15 monetary penalty, which amount constitutes Alaska's share of the state settlement amount of
16 Ten Million Dollars (\$10,000,000.00) by check made out to and delivered to the State of
17 Alaska within ten (10) days of the execution of this Consent Order. In the event another state
18 securities regulator determines not to accept the settlement offer, the total amount of the
19 payment to the State of Alaska shall not be affected.

20 6. If the payment is not made by MKC or MAM, the Division may vacate this
21 Consent Order, at its sole discretion, upon thirty (30) days notice to MKC and/or MAM, and,
22 without opportunity for an administrative hearing, enter a final order or decree if such default
23 is not cured to the satisfaction of the regulators within the thirty (30) day notice period. Any
24 dispute related to any payments required under this Consent Order shall be construed and

1 enforced in accordance with, and governed by, the laws of the state of Alaska without regard
2 to any choice of law principles.

3 7. This Consent Order shall not disqualify MKC and MAM, or any of their
4 affiliates or registered representatives from any business that they otherwise are qualified or
5 licensed to perform under any applicable state law and is not intended to and shall not form
6 the basis for any disqualification or suspension in any state. Further, this Consent Order is
7 not intended to and shall not form the basis for any disqualifications contained in the federal
8 securities law, the rules and regulations thereunder, the rules and regulations of self-
9 regulatory organizations, or various states' securities laws including but not limited to any
10 disqualifications from relying upon the registration exemptions or safe harbor provisions.

11 8. MKC, MAM, and all of their existing and future affiliates and subsidiaries are
12 prohibited from creating, offering or selling a proprietary fund³ that is a registered
13 investment company and is marketed and sold to investors other than institutional and other
14 qualified investors as defined in Section 3(a)(54) of the Securities Exchange Act of 1934, 15
15 U.S.C. § 78c(a)(54), ("proprietary fund") for a period of two (2) years from the entry of the
16 first of the State Consent Orders to be entered in this matter. MKC, MAM, their affiliates or
17 subsidiaries, may seek permission to resume offering or begin offering a proprietary fund in
18 Alaska after the lapse of the first year of the prohibition, but may not proceed with the offer
19 and sale of such proprietary fund in Alaska prior to receiving the express written consent and
20 approval of the Division.

21 9. State Regulatory Audits or Examinations as authorized by AS 45.55.050. In
22 addition to any state regulatory audits or examinations authorized by State statute, the state
23 regulatory authority may conduct appropriate audits or examinations of the offices and
24

³ Any such proprietary fund is specifically deemed to be subject to the oversight in paragraph 10.

1 branch offices of the Respondents MKC and MAM. Appropriate costs associated with such
2 audits or examinations conducted within two (2) years from the date of this Consent Order
3 shall be borne by MKC and/or MAM. This provision in no way limits the assessment of
4 costs by states which routinely assess registrants with the costs of audits.

5 10. If, prior to January 1, 2016, MKC and/or MAM shall again form and sell any
6 proprietary investment products⁴, they shall at that time retain, for a period of three (3) years,
7 at their own expense, an independent auditor, acceptable to the representative designated by
8 the state agencies of Alabama, Kentucky, Mississippi, Tennessee, and South Carolina
9 (“States’ Representative”) and the SEC. The independent auditor cannot be an affiliated
10 entity of MKC or MAM. Further, to ensure the independence of the independent auditor,
11 MKC and/or MAM: (a) shall not have the authority to terminate the independent auditor
12 without prior written approval of the States’ Representative; (b) shall not be in and shall not
13 have an attorney-client relationship with the independent auditor and shall not seek to invoke
14 the attorney-client or any other privilege or doctrine to prevent the independent auditor from
15 transmitting any information, reports, or documents to the States; and (c) during the period of
16 engagement and for a period of two (2) years after the engagement, shall not enter into any
17 employment, customer, consultant, attorney-client, auditing, or other professional
18 relationship with the independent auditor.

19 The scope of the independent auditor’s engagement shall be approved by the States’
20 Representative prior to the commencement of the audit, and shall include, but is not limited

21 _____
22 ⁴ The term “proprietary investment product” or “proprietary product” or “proprietary fund,” as used in this
23 Consent Order, refers to those investment products or offerings which MKC and/or MAM have created or may
24 create and for which they or any of their existing or future affiliates is the issuer and lead underwriter. This
definition, however, shall not apply to proprietary products or offerings in existence at the time of affiliation with
MKC or MAM through any future acquisition, merger or other form of business combination with an entity not
currently under common control with MKC or MAM. Nor shall this definition apply to future 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 MAM.

1 to, reviews and examinations of:

2 a. All firm policies and procedures, relating to proprietary products and/or
3 proprietary offerings including, but not limited to, supervisory, books and records,
4 compliance and document retention policies and procedures;

5 b. The composition of each proprietary fund sold or recommended to clients at
6 least annually;

7 c. All proprietary product and/or proprietary offering marketing materials used
8 or distributed by their agents, representatives, or other employees or affiliates, at least
9 quarterly;

10 d. Potential/actual conflicts of interest with any affiliates, including Regions
11 Morgan Keegan Trust, F.S.B., MKC and MAM, or affiliated persons/control persons. Said
12 review shall be annual unless an increased frequency is deemed necessary by state, federal,
13 and SEC entities; and

14 11. Further, the independent auditor shall:

15 a. Consult with the States' Representative and the SEC about areas of concern
16 prior to entering into an engagement document with MKC and MAM;

17 b. Draft and provide reports as often as may be agreed upon by the States'
18 Representative and the independent auditor with an assessment of the status, compliance, and
19 recommendations pertaining to the organizational, procedural, and policy issues that are the
20 subject of the engagement;

21 c. Simultaneously distribute copies of the reports from paragraph 12b above to
22 MKC, MAM, the States' Representative and the SEC; the States' Representative may
23 distribute the report to NASAA members as the States' Representative deems appropriate.

24 These reports will be deemed confidential and, upon receipt of any legal process or request

1 pursuant to a state’s public information statute or a federal Freedom of Information Act
2 (“FOIA”) request for access, the state regulator shall promptly notify MKC and/or MAM, in
3 order that the Respondents have an opportunity to challenge the release of the information;

4 d. Submit copies of all drafts, notes, and other working papers to coincide with
5 the issuance of the reports;

6 e. Issue recommendations for changes to policies, procedures, compliance,
7 books and records retention programs, and all other areas that are the subject of the
8 engagement;

9 f. Establish reasonable deadlines for the implementation of the
10 recommendations provided in the report; and

11 g. For any recommendations noted but not included in the final report, provide
12 justification for excluding the recommendation from the final report.

13 12. MKC and MAM shall:

14 a. Review the reports submitted by the independent auditor;

15 b. Within sixty (60) days of the issuance of an audit report, submit, in writing, to
16 the States’ Representative and the SEC any objections to implementation of any of the
17 recommendations made by the independent auditor;

18 c. If no objection to a recommendation is made within the sixty (60) day
19 deadline, the recommendation will be implemented within the time frame established for the
20 recommendation by the independent auditor in the report; and

21 d. If objection is timely made to a recommendation, the States’ Representative
22 and the SEC will consider the objections, review the recommendation and determine jointly
23 whether implementation shall be required over the objections of MKC and MAM.

24 13. MKC and MAM hereby confirm that they retained within the time allowed

1 after the entry of the first of the State Consent Orders in this matter, at their own expense, an
2 independent consultant (“Consultant”), acceptable to the States’ Representative, and the
3 SEC. The Consultant’s engagement included the review of MKC’s and/or MAM’s: (i)
4 current written supervisory and compliance procedures concerning product suitability; (ii)
5 current written supervisory and compliance procedures regarding recommendations and
6 disclosures relating to registered investment companies; (iii) current written supervisory and
7 compliance procedures relating to advertising and sales literature regarding the purchase and
8 sale of registered investment companies; and (iv) the implementation and effectiveness of (i)
9 through (iii); provided that the lookback period for (i) through (iii) shall not exceed the
10 twelve (12) month period prior to June 21, 2011. The following provisions applied to the
11 engagement and report;

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

20 b. The parties hereto recognize that the Consultant will have access to privileged
21 or confidential trade secrets and commercial or financial information and customer
22 identifying information the public dissemination of which could place MKC and MAM at a
23 competitive disadvantage and expose their customers to unwarranted invasions of their
24 personal privacy. Therefore, it is the intention of the parties that such information shall

1 remain confidential and protected, and shall not be disclosed to any third party, except to the
2 extent provided by applicable FOIA statutes or other regulations or policies.

3 c. Within thirty (30) days of receipt of the Initial Report, MKC and MAM shall
4 respond in writing to the Initial Report. In such response, MKC and MAM shall advise the
5 Consultant, the States' Representative, and the SEC, the recommendations from the Initial
6 Report that MKC and MAM have determined to accept and the recommendations that they
7 consider to be unduly burdensome. With respect to any recommendation that MKC and
8 MAM deem unduly burdensome, MKC and MAM may propose an alternative policy,
9 procedure or system designed to achieve the same objective or purpose.

10 d. MKC and MAM shall attempt in good faith to reach agreement with the
11 Consultant within sixty (60) days of the date of the receipt of the Initial Report with respect
12 to any recommendation that MKC and MAM deem unduly burdensome. If the Consultant
13 and MKC and MAM are unable to agree on an alternative proposal, MKC and MAM shall
14 submit, in writing, to the States' Representative and the SEC, their objections and any
15 alternative proposal(s) made to the Consultant, and the States' Representative and the SEC
16 shall determine jointly whether implementation shall be required over the objections of MKC
17 and MAM or whether to accept the alternative proposal(s). Within ninety (90) days of the
18 date of the receipt of the Initial Report or, in instances in which an alternative proposal is
19 submitted, ninety (90) days from a joint decision by the States' Representative and the SEC
20 regarding any objectionable portions of the Initial Report, MKC and MAM shall, in writing,
21 advise the Consultant, the States' Representative, and the SEC of the recommendations and
22 proposals that they are adopting.

23 e. No later than one (1) year after the date of the Consultant's Initial Report,
24 MKC and MAM shall cause the Consultant to complete a follow-up review of MKC's and

1 MAM's efforts to implement the recommendations contained in the Initial Report, and MKC
2 and MAM shall cause the Consultant to submit a Final Report to the States' Representative,
3 and the SEC. The Final Report shall set forth the details of MKC's and MAM's efforts to
4 implement the recommendations contained in the Initial Report, and shall state whether
5 MKC and MAM have fully complied with the recommendations in the Initial Report.

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

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

23 14. MKC and MAM shall provide, for a period of three (3) years from June 21,
24 2011, to all of their registered agents and investment adviser representatives mandatory,

1 comprehensive, and ongoing (i) product/offering training on each of the proprietary
2 products/offerings that they sell or recommend to clients, and (ii) training on suitability and
3 risks of investments generally. The training required pursuant to this paragraph shall be in
4 addition to any continuing education training required to maintain the registrations of the
5 registered agents and investment adviser representatives and shall include, at a minimum,
6 training on all of the following:

7 a. Suitability as it applies to the various types of products/offerings, proprietary
8 or otherwise, the FA sells at MKC;

9 b. The type and nature of the holdings and risks attendant thereto in any
10 proprietary product/offering sold by the firm, for which the firm or any affiliate purchased
11 the underlying holdings, that the registered person will be selling or recommending to
12 clients;

13 c. The risks associated with the proprietary product/offering; and

14 d. Conflicts of interest that may arise as a result of the sale/recommendation of
15 the proprietary product/offering.

16 15. For training related to proprietary products/offerings, MKC and MAM shall
17 develop and implement course evaluations to be completed by each FA in order to assess the
18 effectiveness of the training.

19 16. MKC and MAM shall;

20 a. Maintain a log of each agent/representative's completed courses, copies of
21 which they shall provide to the States' Representative upon request;

22 b. Only allow agents/representatives to sell/recommend proprietary products
23 and/or proprietary offerings for which they have completed and verified training;

24 c. Maintain an archive of all training material that may be accessed by

1 agents/representatives on an as-needed basis after training is completed, copies of which they
2 shall provide to the States' Representative upon request;

3 d. Maintain current training materials on proprietary products and/or proprietary
4 offerings being offered or sold to any of their clients, copies of which they shall provide to
5 the States' Representative upon request;

6 e. Maintain a manned product/offering help desk that is available to answer
7 questions from agents/representatives during regular business hours, the person manning
8 such shall be registered with a minimum of a Series 65 or 7 license or registration; and

9 f. Provide to the Division an annual certification that MKC and MAM are in
10 compliance with the required training and maintenance of training materials.

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

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

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

23 20. Unless otherwise stipulated, the parties intend that the monies allocated
24 through the SEC's Fair Fund and/or the States' Fund, including the monies allocated

1 pursuant to this Consent Order, to the investors of any given State will be treated as an offset
2 against any order for MKC or MAM, or any of them, to pay any amount (whether
3 designated as restitution, fines or otherwise compensatory in nature) in any action brought by
4 that State or any of the regulatory agencies thereof and not concluded by this Consent Order.

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

12 21. Respondents MKC and MAM agree not to make or permit to be made any
13 public statement denying, directly or indirectly, any finding in this Consent Order or creating
14 the impression that this Consent Order is without factual basis. Nothing in this Paragraph
15 affects MKC's or MAM's: (i) testimonial obligations, or (ii) right to take legal or factual
16 positions in defense of litigation or arbitration or in defense of other legal proceedings in
17 which the Division is not a party.

18 22. Nothing herein shall affect any statutory authority of the Division, including
19 but not limited to, inspections, visits, examinations, and/or the production of documents

20 23. This Consent Order shall be binding upon MKC and MAM, and their
21 successors and assigns, with respect to all conduct subject to the provisions above and all
22 future obligations, responsibilities, undertakings, commitments, limitations, restrictions,
23 events, and conditions.

1 SO ORDERED this 17th day of April, 2013.

2 SUSAN BELL, Commissioner
3 Department of Commerce, Community and Economic Development
4 Division of Banking and Securities

5
6 /s/ Lorie Hovanec
7 Lorie L. Hovanec, Director
8 Division of Banking and Securities

9 **CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY MORGAN ASSET**
10 **MANAGEMENT, INC. AND MORGAN KEEGAN & COMPANY, INC.**

11 Morgan Asset Management, Inc. and Morgan Keegan & Company, Inc.

12 (“Respondents”) hereby acknowledge that they have been served with a copy of this
13 Administrative Consent Order (“Consent Order”), have read the foregoing Consent Order,
14 are aware of each of their right to a hearing and appeal in this matter, and have waived the
15 same.

16 Respondents admit the jurisdiction of the Department of Commerce, Community and
17 Economic Development, Division of Banking and Securities (Division); admit to the
18 allegations in paragraphs 41 through 43 of Section II, relating to the maintenance of books
19 and records, but otherwise neither admit nor deny any of the findings of fact, allegations,
20 assertions or conclusions of law that have been made herein in this proceeding; and
21 Respondents further consent to entry of this Consent Order by the Division as settlement of
22 the issues contained in this Consent Order.

23 Respondents enter into this Consent Order voluntarily and represent that no threats,
24 offers, promises, or inducements of any kind have been made by the Division or any

1 member, officer, employee, agent, or representative of the Division to induce Respondents to
2 enter into this Consent Order other than as set forth in the Consent Order.

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

7 Paul L. Matecki represents that he/she is Secretary of Morgan Keegan & Company,
8 Inc. and that, as such, has been authorized by Morgan Keegan & Company, Inc. to enter into
9 this Consent Order for and on behalf of Morgan Keegan & Company, Inc.

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

18 Dated this 21st day of March, 2013.

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

21 /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 21st day of
4 March, 2013.

5 /s/ Janice E. Hill
6 Notary Public

7 My commission expires:

8 12/13/2014

9 MORGAN KEEGAN & COMPANY, INC.

10 By: /s/ Paul Matecki
11 Title: Secretary

12 STATE OF Florida)
13 County of Pinellas) ss.

14
15 SUBSCRIBED AND SWORN TO before me by Paul L. Matecki this 8th day of
16 April, 2013.

17 /s/ Dana W. Dickson
18 Notary Public
19 My commission expires: 10/05/2015