UNITED STATES DISTRICT COURT

WESTERN DISTRICT OF TENNESSEE

HAYNE PALMOUR III, AS TRUSTEE OF THE HAYNE PALMOUR III C/F DANIEL GRANT TREVOR UTMA NC TRUST AND THE HAYNE PALMOUR III C/F LILLIAN CLAIR TREVOR UTMA NC TRUST, Individually and On Behalf of All Others Similarly Situated, Plaintiff, vs. MORGAN KEEGAN & COMPANY, INC., MORGAN ASSET MANAGEMENT, INC., REGIONS FINANCIAL CORPORATION, RMK ADVANTAGE INCOME FUND, INC., RMK STRATEGIC INCOME FUND, INC., RMK HIGH INCOME FUND, INC., RHY MULTI-SECTOR HIGH INCOME FUND, INC., CARTER E. ANTHONY, ALLEN B. MORGAN, JR., JOSEPH C.WELLER, JAMES STILLMAN R. MCFADDEN, ARCHIE W. WILLIS, III, MARY S. STONE, W. RANDALL PITTMAN, J. KENNETH ALDERMAN, J. THOMPSON WELLER, JAMES C. KELSOE, JR., JACK R. BLAIR, ALBERT C. JOHNSON, CHARLES D. MAXWELL, and PRICEWATERHOUSECOOPERS, L.L.P., Defendants.	No. <u>JURY TRIAL DEMANDED</u> COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS <u>CLASS ACTION</u>

Plaintiff Hayne Palmour III, as Trustee of the Hayne Palmour III C/F Daniel Grant Trevor UTMA NC Trust and the Hayne Palmour III C/F Lillian Clair Trevor UTMA NC Trust, ("Plaintiff") has alleged the following based upon the investigation of Plaintiff's counsel, which included a review of U.S. Securities & Exchange Commission ("SEC") filings by Regions Financial Corporation ("Regions") and Morgan Keegan & Co., Inc. ("Morgan Keegan" or the "Company"), as well as regulatory filings and reports, securities analysts' reports and advisories about the Company, press releases and other public statements issued by the Company, and media reports about the Company. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal class action on behalf of purchasers of four closed-end mutual funds offered by Morgan Keegan between June 6, 2005 and July 14, 2009, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act") against Morgan Keegan and certain of its officers and directors. The four closed-end mutual funds are: (1) RMK Advantage Income Fund ("RMA"); (2) RMK Strategic Income Fund ("RSF"); (3) RMK High Income Fund ("RMH"); and (4) RMK Multi-Sector High Income Fund ("RHY") (collectively, the "Funds").

2. Investors in the Funds lost approximately $1 billion in 2007 because of the Funds' investments in poor-quality asset-backed securities, leveraged many times over by complex capital structures. A basic analysis of Morgan Keegan's portfolio holdings, of the type the Company claimed to its investors that it performed, demonstrates that the Company was exposing its investors to as much as ten times the credit risk of the underlying, already risky,

debt in exchange for one percent or two percent higher returns than those that would have been earned by a diversified, transparent high-yield bond portfolio.

3. Morgan Keegan also told investors that the Company undertook in-depth evaluations of the mutual funds it recommended to its retail customers. Such an evaluation of the Funds would have uncovered Morgan Keegan's gross mischaracterization of risky asset-backed securities as conservative corporate bonds and preferred stocks, and the undisclosed highly-leveraged credit risk in the low-priority asset-backed securities held by the Funds.

4. Contrary to Morgan Keegan's assertions, the losses suffered by investors in the Funds were not caused by a "flight to quality" or a "mortgage meltdown." Diversified portfolios of high-yield bonds and mortgage-backed securities did not suffer significant losses at the time the Funds suffered catastrophic losses. Rather, the Funds collapsed because they held concentrated holdings of low-priority tranches in structured finance deals backed by risky assets.

5. Morgan Keegan did not fully or accurately inform investors in the Funds of the risks inherent in the subordinated tranches held by the Funds until well after the losses were incurred. Indeed, Morgan Keegan affirmatively misrepresented hundreds of millions of dollars of risky securities it held in these portfolios as corporate bonds and preferred stocks. Morgan Keegan also misled investors by repeatedly comparing the performance of the Funds to the Lehman Brothers Ba U.S. High-Yield Index ("Lehman Ba Index"). This index contained only corporate bonds, wholly distinct from the asset-backed securities that dominated the Funds' portfolios and that caused virtually all the investors' losses. Morgan Keegan also misled investors by claiming that the Funds were diversified.

6. Defendants' conduct, alleged in this putative class action, has spawned regulatory enforcement actions or investigations by at least five state regulators, the Financial Industry Regulatory Authority ("FINRA"), and the SEC.

7. On July 9, 2009, the SEC served Regions, Morgan Keegan's parent company, with a Wells Notice, which notified Regions that the SEC would commence an enforcement action.

8. On July 15, 2009, Regions made the following statement on SEC Form 8-K:

> On July 9, 2009, Morgan Keegan & Company, Inc. ("Morgan Keegan") (a wholly-owned subsidiary of Regions Financial Corporation), Morgan Asset Management, Inc. and three employees, each received a "Wells" notice from the Staff of the Atlanta Regional Office of the United States Securities and Exchange Commission (the "Commission") stating that the Staff intends to recommend that the Commission bring enforcement actions for possible violations of the federal securities laws. The potential actions relate to the Staff's investigation of certain mutual funds formerly managed by Morgan Asset Management, Inc.

9. This case arises from Defendants' materially false and misleading statements and omissions regarding the Funds' value, content, and risks, in filings with the SEC and in the public forum—much of the same conduct that triggered the Wells Notice and ensuing enforcement action by the SEC.

10. These misstatements and omissions included the following:

(a) Failing to disclose that an investment in the Funds entailed substantially more risk than their purported benchmark, the Lehman Ba Index. This was misleading because the Funds were three times more volatile as their benchmark between April 2006 and September 2006, six times more volatile between October 2006 and March 2007, and twelve times more volatile between April 2007 and September 2007. The Lehman Ba Index was so stable because, unlike the Funds, the index contained no structured finance products. By contrast, structured finance products in the lowest tranches comprised about 65 percent of the Funds' assets;

(b) Failing to disclose the risk of implicit leverage in the credit structure of the Funds' asset pools;

(c) Misstating that 10-15 percent of the Funds' underlying assets were corporate bonds and preferred stocks when, in fact, those assets were below-investment-grade products;

(d) Misrepresenting that the Funds offered safety through diversity across multiple fixed income asset classes when, in fact, the Funds were consistently invested in below-investment-grade securities;

(e) Misrepresenting that the Funds provided a consistent level of income when, in fact, the Funds were loaded-up with structured products that were in the lowest tranches of asset-back securities;

(f) Misrepresenting that the Funds offered a stable net asset value ("NAV") when, in fact, the Funds' true NAV was extremely volatile;

(g) Omitting material information about the substantial credit risk associated with investing in the lowest-tranched asset-backed securities; further, failing to disclose in registration statements and prospectuses that cash flows from pools of such assets could also be tranched;

(h) Misstating that the Funds' underlying assets were liquid when, in fact, the underlying assets were thinly traded and held by virtually no other fixed-income mutual funds other than the Funds themselves;

(i) Misrepresenting the value of the Funds' underlying assets. Specifically, Morgan Keegan's accounting practices used valuation procedures that artificially inflated the values of the Funds' NAV. Notably, when Morgan Keegan finally hired an independent valuation consultant in March 2008, the consultant valued the Funds' underlying assets at less than one percent of the values assigned by Morgan Keegan;

(j) Failing to disclose that the Funds were investing the large majority of investor proceeds in subprime, illiquid, and untested investment structures (which ultimately caused each of the Funds to lose far more value in 2007 than any other comparable mutual fund);

(k) Failing to disclose that the Funds' Boards of Directors were not discharging their legal responsibilities to determine the Funds' "fair valuation," in that the directors had abdicated their responsibility to the Funds' investment advisor, which had undisclosed conflicts of interest because the advisors' compensation was based upon the Funds' "fair valuation";

(l) Misstating that the Funds employed investment strategies different from one another when, in fact, the same manager managed all Funds and employed similar investment strategies, and the content of the Funds' portfolios overlapped significantly; and

(m) Failing to disclose that the Funds were investing in assets backed by non-conforming mortgages that did not comply with Fannie Mae Federal Home Loan Mortgage Corporation ("FHLMC") standards.

JURISDICTION AND VENUE

11. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act [15 U.S.C. §§ 78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the SEC [17 C.F.R. § 240.10b-5].

12. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331, Section 27 of the Exchange Act [15 U.S.C. § 78aa].

13. Venue is proper in this District pursuant to Section 27 of the Exchange Act, 28 U.S.C. § 1391(b), because many of the acts and practices complained of herein occurred in substantial part in this District.

14. In connection with the acts alleged in this complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to the mails, interstate telephone communications, and the facilities of the national securities markets.

PARTIES

15. Plaintiff purchased the publicly-traded Funds of Morgan Keegan at artificially inflated prices during the Class Period, as set forth in the accompanying Certification and incorporated by reference herein, and has been damaged thereby.

16. Defendant Morgan Keegan, a wholly-owned subsidiary of Regions, is a Tennessee corporation with its principal place of business located in Memphis, Tennessee. Morgan Keegan acted as an underwriter for Fund shares sold during the Class Period.

17. Defendant Regions is a Delaware corporation with its principal place of business in Birmingham, Alabama. During the Class Period, Regions' subsidiaries offered and sold Fund shares. Further, FINRA regulatory filings state that Regions controls the management and policies of Morgan Keegan.

18. Defendant Morgan Asset Management, Inc. ("MAM"), a Tennessee corporation with its principal place of business in Memphis, Tennessee, is a registered investment advisor that served as advisor to the Funds at all time relevant to this Complaint's allegations.

19. Defendant RMK Advantage Income Fund, Inc. ("RMA") (n/k/a Helios Advantage Income Fund), a Maryland corporation, is a closed-end management fund that maintains its principal place of business in New York City. RMA is registered under the Investment Company Act of 1940 and issued a registration statement on September 7, 2004, and amendments thereto on October 20, 2004 and November 5, 2004.

20. Defendant RMK Strategic Income Fund, Inc., ("RSF") (n/k/a Helios Strategic Income Fund), a Maryland corporation, is a closed-end management fund that maintains its principal place of business in New York City. RSF is registered under the Investment Company Act of 1940 and issued a registration statement on January 16, 2004, and amendments thereto on February 26, 2004 and March 17, 2004.

21. Defendant RMK High Income Fund, Inc., ("RMH") (n/k/a Helios High Income Fund), a Maryland corporation, is a closed-end management fund that maintains its principal place of business in New York City. RMH is registered under the Investment Company Act of 1940 and issued a registration statement on June 23, 2003, and amendments thereto on April 16, 2003 and May 28, 2003.

22. Defendant RHY Multi-Sector High Income Fund ("RHY") (n/k/a Helios Multi-Sector High Income Fund), a Maryland corporation, is a closed-end management fund that maintains its principal place of business in New York City. RHY is registered under the Investment Company Act of 1940 and issued a registration statement on January 9, 2006, and amendments thereto on January 18, 2006 and November 14, 2006.

23. Defendant PricewaterhouseCoopers ("PwC") is a professional firm of Certified Public Accountants ("CPAs") that provides, among other services, tax and audit services to publicly-traded entities like the Funds, which engaged PwC to provide independent accounting

and auditing services. PwC's far-reaching services for the Funds, its close relationship with the Funds, and the Funds' management provided PwC with intimate familiarity with the Funds' accounting, which was used for the valuation of Fund assets.

24. Defendant Carter E. Anthony was President and Chief Investment Officer of MAM. Anthony was also the President of RHY and RMA.

25. Defendant Joseph C. Weller co-founded Morgan Keegan and at all relevant times was the Vice-Chairman of Morgan Keegan.

26. Defendant J. Thompson Weller, a Certified Public Accountant and Principal Financial Officer at Morgan Keegan, served at all relevant times as Treasurer of all four Funds.

27. Defendant J. Kenneth Alderman served as a director of RHY and Chief Executive Officer of MAM.

28. Defendant Jack R. Blair served as a director of RHY.

29. Defendant Albert C. Johnson served as a director of RHY.

30. Defendant James Stillman R. McFadden served as a director of RHY.

31. Defendant W. Randall Pittman served as a director of RHY.

32. Defendant Mary S. Stone served as a director of RHY.

33. Defendant Allen B. Morgan, Jr., co-founded Morgan Keegan in 1969 and, at all relevant times, served as Morgan Keegan's Chairman and Regions' Vice-Chairman. Additionally, Morgan served as a director of RHY.

34. Defendant Archie W. Willis, III, served as a director of RHY.

35. Defendant Charles D. Maxwell served as President of RSF and RMH.

36. Defendant James C. Kelsoe, Jr., served as Senior Portfolio Manager of the Funds and MAM.

37. The Defendants named in Paragraphs 24 through 36 are referred to as the "Individual Defendants."

38. During the Class Period, the Individual Defendants, as senior executive officers and/or directors of the Funds, were privy to confidential and proprietary information concerning the Funds and their operations, finances, financial condition, and present and future business prospects. The Individual Defendants also had access to material adverse non-public information concerning the Funds, as discussed in detail below. Because of their positions with the Company and/or the Funds, the Individual Defendants had access to non-public information about the Funds' business, finances, and future business prospects via access to internal corporate documents, conversations, and connections with other corporate officers and employees, attendance at management and/or board of directors meetings and committees thereof, and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew, or recklessly disregarded, that the adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

39. The Individual Defendants are liable as direct participants in the wrongs complained of herein. In addition, the Individual Defendants, by reason of their status as senior executive officers and/or directors, were "controlling persons," within the meaning of Section 20(a) of the Exchange Act, and had the power and influence to cause the Funds to engage in the unlawful conduct complained of herein. Because of their positions of control, the Individual Defendants were able to and did, directly or indirectly, control the conduct of the Funds' business.

40. The Individual Defendants, because of their positions with the Company and/or the Funds, controlled and/or possessed the authority to control the contents of the Funds' reports, press releases, and presentations to securities analysts and, through them, to the investing public. The Individual Defendants were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Thus, the Individual Defendants had the opportunity to commit the fraudulent acts alleged herein.

41. As senior executive officers and/or directors and as controlling persons of publicly-traded mutual funds registered with the SEC, traded on the New York Stock Exchange ("NYSE"), and governed by the federal securities laws, the Individual Defendants had a duty to promptly disseminate accurate and truthful information with respect to the Funds' financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings, and present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue so that the market price of the Funds would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

42. The Individual Defendants are liable as participants in a fraudulent scheme and for a course of conduct that operated as a fraud or deceit on purchasers of the Funds by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (a) deceived the investing public regarding the Funds' business, operations, and management, and the intrinsic value of the Funds; and (b) caused Plaintiff and Class members to purchase the Funds at artificially inflated prices.

SUBSTANTIVE ALLEGATIONS

43. The Funds lost $1 billion in market value during 2007 because, among other reasons, the Funds held concentrated holdings of low-priority tranches in structured finance deals, which were backed by risky assets—a risk not adequately disclosed to investors.

44. Defendants failed to disclose in SEC filings the risks facing investors with regard to the Funds' investment of the majority of their portfolios in subordinated tranches of asset-backed securities. In fact, neither the Funds nor Kelsoe disclosed these risks until after the losses were incurred.

45. As Morgan Keegan's due diligence analyst observed in 2007 in a never-issued report, the Funds' "specialization in less traditional sectors" put the Funds "at risk of periodic underperformance when these areas are out of favor." As the Director of the Investments Department understood, and explained in an internal May 15, 2007 e-mail, the magnitude of the potential underperformance was "comparatively large" and investors could not be expected to understand these risks:

> The [Intermediate Fund] has a huge underweight in Govt bonds, a large overweight in asset-backed securities and an overweight in Corp bonds. Again, these differences result in lower correlation, higher tracking error, and ***most importantly, far different risks than the broad market and than what most investors would expect from their fixed income portfolio***…. As a result of the non-traditional exposures, [the fund] ***simply does not act like a traditional bond fund***…. Clearly [the fund] acts differently than the market, but the ***magnitude of that difference is comparatively large***. Again, this is all a result of the holdings within the fund…. [T]here are some risk exposures with this fund that are just different than more traditional bond funds. In addition, this fund has a fair amount of liquidity risk ….

(Emphasis added).

46. In the Funds' SEC filings, Defendants also misrepresented the safety of hundreds of millions of dollars of asset-backed securities by mischaracterizing them as corporate bonds and preferred stocks, thus making the Funds seem more diversified and conservative than they actually were.

47. The Funds were marketed as four different funds that employed different investment strategies. However, the Funds were managed almost identically by the same manager, Kelsoe, who has testified in arbitration hearings that the Funds' portfolios contained many of the same securities, acknowledging that the Funds' portfolios were highly correlated. Consequently, investors who purchased more than one of the Funds were misled to believe that, by doing so, they were diversifying their investments and reducing their overall exposure to market risk.

48. Defendants further misled investors through the Funds' SEC filings and marketing materials by comparing the Funds to the Lehman Ba Index. This comparison was materially misleading because the Lehman Ba Index contained no asset-backed securities, unlike the Funds, which contained substantial amounts of asset-backed securities. In fact, the Lehman Ba Index contained only corporate bonds and no structured finance products, whereas the Funds held three times more structured finance securities than corporate bonds.[1]

49. Specifically, in a March 31, 2007 filing with the SEC, Morgan Keegan misrepresented over $215 million in highly-leveraged, illiquid asset-backed securities as corporate bonds and preferred stocks as follows:

(a) $44.1 million in asset-backed securities held by RMH;
(b) $44.1 million in asset-backed securities held by RSF;
(c) $59.3 million in asset-backed securities held by RMA; and

[1] *See* Craig McCann, PhD, *Regions Morgan Keegan: The Abuse of Structured Finance*, Securities Litigation & Consulting Group, Inc. (Jan. 2009).

(d) $67.5 million in asset-backed securities held by RHY.

50. Further, in RMH's February 28, 2007 Form N-Q, filed with the SEC, RMH misrepresented Webster CDO I Preferred Shares as preferred shares when, in fact, these securities were asset-backed securities that were below investment grade or unrated, collateralized debt obligations.

51. RMH reported the value of its Webster CDO I Preferred Shares at $1.8 million as of March 31, 2007, or at $0.90 a share. The valuation of these securities was inflated because claims of investors in these securities were subordinated to those of other investors. On June 3, 2008, RMH reported in a Certified Shareholder Report on Form N-CSR that by March 31, 2008, the total value of these securities declined to just $20.

52. RSF and RMA made similar misrepresentations in their February 28, 2007 Form N-Qs, and, as with RMH's Form N-Q, J. Thompson Weller signed and certified the accuracy of the forms.

53. RHY also misrepresented Webster CDO I Preferred Shares as conservative preferred shares when, in fact, they were asset-backed securities, below investment grade or unrated, collateralized debt obligations. RHY did not correct this misrepresentation until it filed its March 31, 2008 financial results on Form N-Q, which J. Thompson Weller signed and certified as accurate.

54. RHY's misrepresentation misled investors about the riskiness of RHY's holdings in asset-backed securities because Webster CDO I Preferred Shares were ranked in last place in terms of interest waterfall and, moreover, were not eligible to receive interest payments in the event of default. Finally, no principal payments would be made on these securities until maturity

date. These shares were effectively an investment in the underlying subprime assets, leveraged at about 23 to 1.

55. RHY reported the value of Webster CDO I Preferred Shares at $3.15 million as of March 31, 2007, or at $0.90 a share. The valuation of these securities was inflated because claims of investors in these securities were subordinated to those of other investors. By March 31, 2008, RHY reported the total value of these securities at just $35.

56. Similarly, in their February 28, 2007 Forms N-Q, the Funds misrepresented their holdings in Eirles Two Ltd. 263 as corporate bonds. This representation was inaccurate because, Eirles Two Ltd. 263 was an asset-backed security. Not until March 31, 2008, did Defendants make the corrective disclosure that Eirles Two Ltd. 263 was, in fact, an asset-backed security. Such mischaracterizations of the composition of the Funds was another means by which Defendants misled investors.

57. RHY's prospectus, which is part of RHY's registration statement, failed to disclose the highly concentrated credit risk that RHY was foisting on its investors through RHY's purchase of low-priority tranches in a wide range of structured finance deals. RHY's prospectus also neglected to mention that cash flows from pools of assets, including mortgages, can be tranched. These omissions were materially misleading because the Funds' primary stated investment objective was to achieve cash flow for investors.

58. Further, the Funds' registration statements discussed leveraged risk, indicating a limit of 1.33 to 1. But the Funds' investments in so many low-priority tranches increased leverage to 10 to 1. This increased leverage also increased the Funds' credit risk and contributed to the Funds' spectacular collapse in 2007.

59. The Funds' registration statements also misstated that the Funds would not invest more than 25 percent of total Fund assets in the securities of companies in the same industry. In fact, however, the Funds invested well more the 25 percent of Fund assets in securities linked to the mortgage industry—a fact that the Funds and PwC concealed from investors. Consequently, the Funds were not as diversified as represented.

60. Specifically, each of the Funds invested more than 50 percent of their assets in the mortgage industry, according to a Bloomberg report on June 30, 2007.

61. The Funds and PwC recklessly disregarded the ABX.HE Index, which is a default swap index based on subprime mortgages and is widely recognized as a reliable pricing mechanism for mortgage-backed securities. The Index suffered a serious downturn in 2007. That downturn alerted the Funds, MAM, Kelsoe, and PwC that the Funds needed to record an impairment to the Funds' asset portfolios, in accordance with applicable accounting rules. Defendants, however, were motivated to delay recording the impairment, and thus, to keep the Funds' NAVs at inflated levels, because the higher the Funds' NAV, the greater the fees received by MAM and Kelsoe from the Funds.

62. This failure to write-down asset valuations or to record impairment to asset value violated Financial Accounting Standards 115 ("FAS 115"). FAS 115 requires an asset value write-down if "it is probable that the investor will be unable to collect all amounts due according to the contractual terms of a debt security not impaired at acquisition." If this impairment is "other than temporary," the cost basis of the security must be written down to fair value and the enterprise must include the write-down as a realized loss in its earnings report.

63. Not later than January 2007, the Funds should have written down the value of their mortgage-backed securities because, by that time, the ABX.HE Index had declined significantly, signaling more than a temporary impairment of the Funds' investments.

64. In addition, misrepresentations regarding the content of the Funds permeated other securities filings by Defendants. On January 19, 2006, Morgan Keegan filed a Statement of Additional Information ("SAI") for RHY. Although the SAI discussed tranching, it failed to disclose that RHY's investments would be concentrated in the lowest priority, highly-leveraged tranches in deals backed by assets with significant credit risk—credit risk not fully disclosed to investors and responsible for the Funds' losses of $1 billion in market value in 2007.

65. RHY's SAI describes the investment philosophy and process of the newly-issued fund as follows:

> **Investment Philosophy and Process**
>
> * * *
>
> The Adviser's "bottom-up" strategy focuses on identifying special or unusual opportunities where the Adviser decides that the market perception of, or demand for, a credit or structure has created an undervalued situation. ***The analytical process concentrates on credit research, debt instrument structure and covenant protection***. Generally, when investing in below investment grade debt securities, the Adviser will seek to identify issuers and industries that it believes are likely to experience stable or improving conditions. Specific factors considered in the research process may include general industry trends, ***cash flow generation capacity, asset valuation, other debt maturities, capital availability, collateral value and priority of payments***.

(Emphasis added).

66. Most of the securities in which RHY ultimately invested were complex structures that provide very little information on underlying collateral and require sophisticated modeling to understand and value. If the portfolio manager had performed the rigorous analysis described in

the "Investment Philosophy and Process" in each Fund's prospectus, the highly concentrated credit risk collected in these portfolios would have been readily apparent.

67. The RHY prospectus contains 14 pages of risk factors, describing the risks to which Fund investors would be exposed. There are 26 categories of risks described in the prospectus but it does not mention the highly concentrated credit risk the Fund was undertaking through its purchase of low-priority tranches in a wide range of structured finance deals. The prospectus does not even mention that cash flows from pools of assets including mortgages can be tranched. Instead, the prospectus describes the risks of investing in mortgage-backed and asset-backed securities as if investors were exposed to the average interest rate risk, prepayment risk, and credit risk of the underlying assets.

68. Many of the investments selected by Morgan Keegan for RHY exposed investors to the credit risk equivalent to an investment in the underlying portfolio of assets leveraged 10-to-1. The prospectus' discussion of "Leveraged Risk" reflects a limit of 1.33-to-1 on portfolio leverage but Morgan Keegan's use of low-priority tranches in structured finance deals allowed the portfolio manager to dramatically leverage the credit risk in these bond portfolios. This leveraging of credit risk explains the high returns earned on the Funds in 2004-2006, despite the high annual expense ratios, and the spectacular collapse of the Funds in 2007.

69. On September 30, 2006, RHY and the other Funds filed semi-annual reports with the SEC. The reports misleadingly described the Funds' risks as follows:

> INVESTMENT RISKS: Bond funds tend to experience smaller fluctuations in value than stock funds. However, investors in any bond fund should anticipate fluctuations in price. Bond prices and the value of bond funds decline as interest rates rise. Longer-term funds generally are more vulnerable to interest rate irks than shorter-term funds. Below investment grade bonds involve greater credit risk, which is the risk that the issuer will not make interest or principal payment when due. An economic downturn or period of

> rising interest rates could adversely affect the ability of issuers, especially issuers of below investment grade debt, to service primary obligations and an unanticipated default could cause the Fund to experience a reduction in value of its shares. The value of U.S. and foreign equity securities in which the Fund invests will change based on changes in a company's financial condition and in overall market and economic conditions. Leverage creates an opportunity for an increased return to common stockholders, but unless the income and capital appreciation, if any, on securities acquired with leverage proceeds exceed the costs of the leverage, the use of leverage will diminish the investment performance of the Fund's shares. Use of leverage may also increase the likelihood that the net asset value of the Fund and market value of its common shares will be more volatile, and the yield and total return to common stockholders will tend to fluctuate more in response to changes interest rates and creditworthiness.

Each Fund in its September 2006 semi-annual report provided a similar, if not identical, description of purported "INVESTMENT RISKS." These descriptions, however, were materially misleading when made because nowhere in these descriptions did the Funds disclose the leveraged credit risk investors faced as a result of the Funds' concentration in low-priority tranches of structured securities.

70. In the September 2006 semi-annual reports, the Funds also misled investors about the reasons for the Funds' strong returns in 2006. Although the real reason for the Funds' returns was the undisclosed credit leverage risk described above, the Funds falsely attributed the returns to "the stability of the Funds' net asset value offered by a very diverse portfolio." In truth, the Funds were guessing about NAV—completely forsaking assurances made in the Funds' registration statements that the Funds' boards used "fair valuation" procedures to determine NAV. Further, the Funds' portfolios were anything but "diverse"—rather, the Funds' portfolios were concentrated in low-priority tranches that were highly leveraged.

71. Then, in September 2007, RHY and the other Funds alluded to the fact that their investment in subordinated securities might increase credit risks in the following materially misleading statement:

> The Fund's investments in mortgage-backed asset-backed securities that are "subordinated" to other interests in the same [asset] pool may increase credit risk to the extent that the Fund as a holder of those securities may only receive payments after the pool's obligations to other investors have been satisfied.

72. This purported disclosure was materially misleading because the investors' credit risk was not in danger of being increased by the Funds' investments in "subordinated" securities—rather, the Funds' over-concentration in such securities had already exposed investors to increased credit risk.

73. On March 6, 2008, one of Morgan Keegan's open-end funds, RMK Select Fund, Inc., made the following disclosure:

> The structured finance category has taken the hardest hit so far due to the implicit (*i.e.*, built into the structures) and explicit (*i.e.*, financed, or bought on margin) leverage employed for this asset category.

74. Unfortunately for the Class, Morgan Keegan made no such disclosure for the Funds. Nevertheless, the open-end fund's disclosure is relevant to the instant case because:

(a) for the first time, Morgan Keegan acknowledged that structured products were leveraged;

(b) for the first time, Morgan Keegan identified structured finance as an asset category;

(c) Morgan Keegan failed to make such a disclosure for the Funds even though they similarly contained structured products; and

(d) as Kelsoe has testified in numerous arbitration hearings, the Funds and the open-end funds contained hundreds of the same securities, and thus, were not all that different from one another based upon the content of their portfolios.

75. The Funds did disclose their ability to invest in securities with credit ratings of BB or lower. However, those disclosures were materially misleading because the Funds failed to disclose credit risk ratings and did not account for probability of default, expected losses, illiquidity, and market risks.

76. The Funds also misled investors about the liquidity of the private placements held in the Funds when the Funds' 2007 annual reports stated that "[p]ursuant to valuation policies and procedures adopted by the Board …, these issues have been determined to be liquid by [MAM], the Fund's investment advisor." In fact, these private placements were illiquid, all but impossible to sell, and highly unlikely to be sold at the artificially inflated values arbitrarily assigned by MAM.

77. Apparently, Defendants acknowledged these deficiencies because, beginning in 2008, after the Funds lost over 50 percent of their value, the misstatement that the Funds' private placements were "liquid" no longer appeared in the Funds' SEC filings.

78. In August 2007, Morgan Keegan and the Funds hired an independent valuation consultant to value the Funds' assets, including the illiquid private placements. Applying fair valuation procedures, which neither MAM nor the Funds had applied, the valuation consultant decreased the value of at least 21 private placements held by the Funds by as much as 99.9 percent of the originally stated (and artificially inflated) values MAM and the Funds assigned to them, as set forth the following chart:

Issue	When Acquired	Cost	March 2008
1,000,387 Knollwood CDO Ltd. 2006-2A E	Acquired 8/24/06,	Cost $1,000,387	$100
2,000 WEBS CDO 2006-1 PS	Acquired 12/7/06,	Cost $1,800,000	$20
1,000,000 Kodiak CDO 2007-2A E,	Acquired 6/29/07,	Cost $983,734	$45,000
4,123,306 Taberna Preferred Funding Ltd. 2006-6A	Acquired 6/27/06,	Cost $4,102,201	$41,233
2,838,133 Taberna Preferred Funding Ltd. 2006-7A C1	Acquired 9/28/06,	Cost $2,795,628	$56,763
4,000,000 Aladdin CDO I Ltd. 2006-3A	Acquired 8/7/06–7/2/07,	Cost $2,291,306	$410,000
2,000,000 Attentus CDO Ltd. 2006-2A F1	Acquired 10/12/06,	Cost $1,952,100	$15,000
3,000,000 Attentus CDO Ltd. 2007-3A F2	Acquired 1/18/07,	Cost $2,884,128	$7,500
1,000,000 Gulf Stream Atlantic CDO Ltd. 2007-1A	Acquired 2/28/07,	Cost $844,318	$100
2,897,636 IMAC CDO Ltd. 2007-2A E	Acquired 5/4/07,	Cost $2,772,069	$290
1,000,000 IXIS ABS 1 Ltd., 12/12/46	Acquired 11/15/06,	Cost $787,560	$20,000
4,000,000 Kodiak CDO 2006-1A, 8/7/37	Acquired 9/29/06,	Cost $3,619,520	$10,000
3,133,608 Kodiak CDO 2006-1A G	Acquired 11/13/06,	Cost $3,061,970	$7,834
2,889,504 Lexington Capital Funding Ltd. 2007-3A F	Acquired 2/9/07,	Cost $2,805,283	$101,133
1,039,100 Newbury Street CDO Ltd. 2007-1A D	Acquired 3/8/07,	Cost $1,024,549	$104
1,961,789 Norma CDO Ltd. 2007-1A E	Acquired 3/1/07,	Cost $1,942,679	$19,618
2,885,255 Sharps CDO 2006-1A D	Acquired 12/5/07,	Cost $2,738,340	$21,639
2,000,000 Trapeza CDO I LLC 2006-10A D2	Acquired 6/15/06,	Cost$2,000,000	$190,000
2,000,000 Terwin Mortgage Trust 2006-R3	Acquired 6/30/06,	Cost $1,655,458	$200
5,000,000 Harborview Corp. 2006-14 PS	Acquired 3/6/07,	Cost $1,076,734	$66,050
2,959,259 Harborview Mortgage Loan Trust 2006	Acquired 5/23/06,	Cost$1,871,617	$231,118

79. As the above chart makes clear, the tremendous loss in the value of the Funds' assets stemmed from the baseless and inflated values assigned to these illiquid private placements by the Funds and MAM.

80. The valuations assigned to these private placements and the Funds' other assets violated applicable SEC rulings, which require that "fair value" be based upon the "current sale" amount that the Funds could reasonably expect to obtain for the securities. Here, no such analysis was performed by Defendants. Prior to the Funds' engagement of an independent valuation consultant, the valuations assigned were the product of mere guesswork by Kelsoe and MAM.

81. In fact, in or around mid-2007, Kelsoe and non-party Gary Stringer pressured MAM to reduce or eliminate any potential write-down in the Funds' NAV.

82. Further, before the third quarter of 2007, the Funds' reported asset valuations that improperly assumed the Funds' highly illiquid assets could be liquidated on a current basis at the

prices paid by the Funds. Likewise, the Funds and PwC failed to reasonably discount asset valuations based upon illiquidity. These actions were deliberately reckless, violated SEC directives, and were concealed from investors.

83. At an annual shareholder meeting in July 2007, Kelsoe stated that declining conditions in the credit and subprime mortgage market had adversely affected the Funds' performance and, consequently, the Funds' dividends would be reduced by $0.01 per share to $0.14 per share. Kelsoe falsely assured investors that "defaults have not been a problem thus far, cash flows continue[d] to look promising, and earnings [would] continue to [come] in at or above our expectations to date." The price of the Funds declined in response to this disclosure.

84. On August 10, 2007, less than a month after Kelsoe's announcement, Kelsoe wrote to the Funds' shareholders, acknowledging problems in the valuation of the Funds' assets. Among other things, Kelsoe falsely stated that, "In the past few weeks, there has been more volatility and downward pressure on the [NAVs] as a result of the difficulty in valuing these securities." On this news, the price of the Funds' shares fell further.

85. Kelsoe's August 10, 2007 statement was materially false and misleading because it falsely implied that before late summer 2007, the Funds' NAVs were not inflated. Kelsoe's purported disclosure was misleading because the valuation problem was based not upon volatility but, rather, illiquidity.

86. By November 2007, in the wake of multiple disclosures about declining NAV, the Funds were trading at less than one-third of their initial offering price.

87. PwC examined and opined on the Funds' financial statements filed with the SEC, which falsely overstated the Funds' asset valuations. PwC issued unqualified opinions as to the Funds' financial statements and internal controls, and consented to these opinions being

incorporated into the Funds' registration statements. PwC knew or was deliberately reckless in providing such unqualified opinions because, as previously alleged, the Funds' asset valuations violated FAS 115. Further, PwC possessed no reasonable basis to certify the Funds' financial statements, including asset valuations, because of the assets' illiquidity and impairment. Under these circumstances, PwC's certifications amount to deliberate recklessness.

88. Defendants acted to intentionally, or with deliberate recklessness to, mislead investors about the Funds' NAV because Defendants knew that the Funds' composition bore no resemblance to the Lehman Ba Index. Further, Defendants ignored the ABX.HE Index, which more accurately reflected a guide to NAV because the index focuses on the sort of mortgage-backed assets that comprised a large portion of the Funds' portfolios.

89. Defendants acted to intentionally, or with deliberate recklessness to, mislead investors about the degree of risk associated with investing in the Funds because Defendants knew, but did not disclose, the true degree of leverage and accompanying credit risk that came with the extreme leverage in Fund assets.

90. Defendants acted to intentionally, or with deliberate recklessness to, mislead investors about the degree of risk associated with investing in the Funds because Defendants knew, but did not disclose, that the Funds were investing mostly in the lowest tranches of structured finance deals.

91. Defendants acted to intentionally, or with deliberate recklessness to, mislead investors about the degree of risk associated with investing in the Funds because Defendants knew, but did not disclose, that NAVss were arbitrarily set by Kelsoe and MAM, and that those arbitrarily assigned values bore no relation to the assets' true value, given those assets' illiquidity.

92. Defendants acted to intentionally, or with deliberate recklessness to, mislead investors about the degree of risk associated with investing in the Funds because Defendants knew, but did not disclose, that contrary to the contents of the Funds' SEC filings, the Funds' Boards of Directors did not employ fair valuation procedures. Defendants did not disclose that NAVs were arbitrarily determined by Kelsoe, Morgan Keegan, and MAM.

93. Defendants acted to intentionally, or with deliberate recklessness to, mislead investors about the degree of risk associated with investing in the Funds because Defendants knew, but did not disclose, the true degree of leverage and accompanying credit risk that came with the extreme leverage in the Funds' assets.

94. Defendants acted to intentionally, or with deliberate recklessness to, mislead investors about the degree of risk associated with investing in the Funds because Defendants mischaracterized the nature of the Funds' assets.

95. Investor losses were not caused by market meltdowns in the mortgage markets or the financial markets in general. Rather, investor losses were caused by Defendants' misstatements and omissions about the Funds' assets, credit risk, content, leverage, and NAVs. This contention is substantiated by the dramatically higher volatility the Funds displayed as compared to the Lehman Ba Index, which Defendants cited as the appropriate benchmark comparison for the Funds.

96. Once the truth was revealed about the Funds' true content, the Funds' values collapsed and investors lost about $1 billion.

CLASS ACTION ALLEGATIONS

97. Plaintiff brings this putative class action under Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired shares in the

Funds between December 6, 2004 and February 6, 2008, and who lost money because of Defendants' materially misleading misstatements and omissions as alleged in this Complaint (the "Class").

98. Excluded from the putative Class are Defendants, officers and directors of Regions, Morgan Keegan, and MAM and, at all relevant times, members of their immediate families and their legal representatives, heirs, successors, or assigns and any entity in which Defendants have or had a controlling interest. Also excluded are those putative Class members who will file, or have already filed, FINRA arbitrations before the opt-out period expires.

99. The members of the putative Class are so numerous that joinder of all putative Class members would not be practical.

100. As of September 30, 2007, the number of outstanding shares in the Funds was approximately 100 million shares. While the exact number of putative Class members is now unknown to Plaintiff and can only be ascertained through discovery, Plaintiff believes that the total number of putative Class members numbers in the tens or hundreds of thousands.

101. Plaintiff's claims are typical of the putative Class's claims because Plaintiff and all other putative Class members have been similarly harmed by Defendants' wrongful conduct, identified in this Complaint.

102. Plaintiff will fairly and adequately protect the interests of the members of the Class and has hired counsel competent and experienced in securities class action litigation. Common questions of law and fact exist as to all putative Class members and predominate over any questions affecting individual members of the putative Class. Among the questions of fact and law common to the putative Class are:

(a) Whether Defendants omitted to disclose that the Funds entailed substantially more risk than their purported benchmark, the Lehman Ba Index, given the fact that the Funds were far more volatile than their benchmark between April 2006 and September 2007 and because, unlike the Funds, which consisted of about 65 percent structured finance products in lower tranches, the Lehman Ba Index contained no structured finance products;

(b) Whether Defendants omitted to disclose the risk of implicit leverage in the credit structure of the Funds' asset pools;

(c) Whether Defendants misstated that 10-15 percent of the Funds' underlying assets were corporate bonds and preferred stocks when, in fact, those assets were below-investment-grade products;

(d) Whether Defendants misrepresented that the Funds offered safety through diversity across multiple fixed income asset classes when, in fact, the Funds were consistently invested in below-investment-grade securities;

(e) Whether Defendants misrepresented that the Funds provided a consistent level of income when, in fact, the Funds were loaded-up with structured products that were in the lowest tranches of asset-back securities;

(f) Whether Defendants misrepresented that the Funds offered a stable NAV when, in fact, the Funds true NAV was extremely volatile;

(g) Whether Defendants omitted material information about the substantial credit risk associated with investing in the lowest-tranched asset-backed securities; further, whether the Funds' registration statements and prospectuses omitted to disclose that cash flows from pools of such assets can also be tranched;

(h) Whether Defendants misstated that the Funds' underlying assets were liquid when, in fact, the underlying assets were thinly traded and held by virtually no other fixed-income mutual funds other than the Funds themselves;

(i) Whether Defendants misrepresented the value of the Funds' underlying assets. Specifically, whether Morgan Keegan, MAM, and Kelsoe used valuation procedures that artificially inflated. Indeed, when Morgan Keegan finally hired an independent valuation consultant in March 2008, the consultant valued the Funds' underlying assets at less than one percent of the values assigned by Morgan Keegan, MAM, and Kelsoe;

(j) Whether Defendants failed to disclose that the Funds were investing the large majority of investor proceeds in subprime, illiquid, and untested investment structures (which ultimately caused each of the Funds to lose far more value in 2007 than any other comparable mutual fund);

(k) Whether Defendants omitted to disclose that the Funds' Boards of Directors were not discharging their legal responsibilities to determine the Funds' "fair valuation," in that the directors had abdicated their responsibility to do so to the Funds' investment advisor, which had undisclosed conflicts of interest because the advisors' compensation was based upon the Funds' "fair valuation";

(l) Whether Defendants misstated that the Funds employed investment strategies different from one another when, in fact, the same manager managed all Funds and employed similar investment strategies, and the content of the Funds' portfolios overlapped significantly;

(m) Whether Defendants failed to disclose that the Funds were investing in assets backed by non-conforming mortgages that did not comply with Fannie Mae FHLMC standards;

(n) Whether Defendants' misstatements and omissions identified in this Complaint violated Section 10(b) and Rule 10b-5 of the Exchange Act;

(o) Whether Defendants acted with the requisite scienter for Section 10(b) and Rule 10b-5 violations;

(p) Whether, for purposes of Section 10(b) and Rule 10b-5, the misstatements and omission identified in this Complaint caused the putative Class financial loss;

(q) Whether the misstatements and omissions identified in this Complaint were material for purposes of liability under Section 10(b) and Rule 10b-5 of the Exchange Act;

(r) Whether Regions acted as a control person under Section 20(a) of the Exchange Act; and

(s) Whether the Individual Defendants acted as control persons under Section 20(a).

103. Plaintiff's claims typify those of the putative Class because Plaintiff and the Class suffered financial loss, caused by Defendants' violations of Section 10(b), Rule 10b-5, and Section 20(a) of the Exchange Act.

104. Plaintiff has no conflicts with the putative Class and will protect the putative Class's interests.

105. A class action stands superior to all other available methods for the fair and efficient adjudication of this matter because joinder of all putative Class members is not practical. Furthermore, because damages suffered by individual class members may be relatively

small, the expense and burden of thousands of individual cases might make it difficult or impossible for members of the putative Class individually to seek redress for the wrongs done to them. There will be no difficulty in managing this putative class action.

COUNT I

VIOLATION OF SECTION 10(B) OF THE EXCHANGE ACT AGAINST DEFENDANTS MORGAN KEEGAN, RHY, RMA, RSF, RMH, KELSOE, AND PWC.

106. Plaintiff here incorporates by reference the allegations contained in Paragraphs 1 through 105.

107. Defendants made the materially false and misleading misstatements and omissions identified in this Complaint.

108. Defendants did so with the requisite level of scienter.

109. The Funds' shares traded in an efficient market, being listed and sold on a national exchange.

110. Defendants' misstatements and omissions caused the Plaintiff's financial loss.

COUNT II

VIOLATION OF SECTION 20(A) OF THE EXCHANGE ACT AGAINST DEFENDANTS REGIONS, MORGAN ASSET MANAGEMENT, ANTHONY, J. THOMPSON WELLER, MAXWELL, AND MORGAN.

111. Plaintiff here incorporates by reference the allegations contained in Paragraphs 1 through 105.

112. Defendants RHY, RMA, RSF, and RMH violated Section 10(b) of the Exchange Act, as alleged in Paragraphs 106 through 110.

113. At all times relevant, Defendant Regions served as the parent to the Funds and exercised operational control over the Funds' public statements and SEC filings, as well as the

Funds' management and policies. Consequently, Defendant Regions possessed the power to control and prevent the misstatements and omissions by the Funds.

114. At all times relevant, Defendant Morgan Asset Management served as advisor to each of the Funds and participated in the daily operations, management, and policies of the Funds, including controlling the Funds' valuation of assets and public statements and filings regarding same.

115. At all times relevant, Defendant Anthony served as RHY's and RMA's President and Chairman. In his role as RHY's and RMA's President and Chairman, Anthony participated in and exercised control over RHY's and RMA's daily operations, management, and policies. Further, Anthony possessed the power to control (and to prevent) the material misstatements and omission made in RHY's and RMA's public statements and SEC filings.

116. At all times relevant, Defendant J. Thompson Weller served as Treasurer for all four Funds. In his role as the Funds' Treasurer, Weller participated in the Funds' daily accounting and valuation activities and statements, management, and policies. As Treasurer, Weller possessed the power to control (and to prevent) the misstatements and omissions regarding the Funds' asset valuations.

117. At all times relevant, Defendant Maxwell served as RSF's and RMH's President and Chairman. In his role as RSF's and RMH's President and Chairman, Maxwell participated in and exercised control over RSF's and RMH's daily operations, management, and policies. Further, Maxwell possessed the power to control (and to prevent) the material misstatements and omission made in RSF's and RMH's public statements and SEC filings.

118. At all times relevant, Defendant Morgan served as Morgan Keegan's Chairman and Executive Managing Director. In this role, Morgan participated in and exercised control

over Morgan Keegan's daily operations, management, and policies. Further, Morgan possessed the power to control (and to prevent) the material misstatements and omission made by Morgan Keegan.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment as follows:

A. Certifying this putative class action as a class action under Rule 23 of the Federal Rules of Civil Procedure;

B. Finding that, as alleged in this Complaint, Defendants violated Section 10(b), Rule 10b-5, and Section 20(a) of the Exchange Act;

C. Awarding Plaintiff and the putative Class statutory damages;

D. Awarding Plaintiff reasonable costs and attorneys' fees; and

E. Awarding such equitable or injunctive relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a jury trial on all issues so triable.

Dated: May 19, 2010

Respectfully submitted,

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