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FEBRUARY 24, 2010, 12:14 P.M. ET

2nd UPDATE: Morgan Keegan Racks Up Another Big Loss On Bond Fund

Article

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(Updates throughout, recasts lede, adds details on Wells notice)

By Suzanne Barlyn and Joe Bel Bruno

OF DOW JONES NEWSWIRES

NEW YORK (Dow Jones)--Morgan Keegan & Co. has been ordered to pay \$1.1 million to an investor group for losses tied to bond funds steeped in risky mortgage-related securities, marking the second such award in days.

A securities arbitration panel found Morgan Keegan, a unit of Birmingham, Ala.-based Regions Financial Corp. (RF), liable for failure to disclose the true nature of investments to financial firms founded by Gen. Henry Cobb, Jr., according to an award by the Financial Industry Regulatory Authority. The panel didn't provide a reason for its award or findings.

The award follows a \$2.5 million decision against Morgan Keegan rendered on Friday. Finra, the Wall Street self-regulatory organization, has received more than 400 arbitration claims against Morgan Keegan involving six bond funds that were heavily invested in collateralized-debt obligations and other subprime-related securities.

Cobb, an 89-year-old World War II Army veteran, originally had sought more than \$4 million in damages as the funds declined in value as much as 82% after the housing bubble burst. CIC Capital Management Company LLC, Cobb Investment Company LLC, and CIC Financial were also claimants in the arbitration.

A Morgan Keegan spokesman did not immediately provide a comment. The firm previously said 114 cases seeking more than \$24 million were dropped by claimants before their hearings, in addition to settling cases for an undisclosed amount.

Cobb and his holding companies alleged that the funds were promoted as "conservative investments with relatively low risk," according to a statement of claim. Despite the losses from the risky funds, the claimants ultimately made a \$6 million profit generated by income from municipal bond investments managed by Morgan Keegan, according to Cobb's attorney, Jeffrey Erez.

The award also marks what could be the first time that the arbitration panel admitted into evidence a Wells notice sent to Morgan Keegan by the Securities and Exchange Commission, said several attorneys for investors with claims against the brokerage. That notice, which is sent to companies ahead of potential regulatory enforcement action, outlines potential wrongdoings being investigated by regulators.

Regions Financial reported in a securities filing last year that it received a Wells notice on July 9. Regions was told that the SEC "staff intends to recommend that the commission bring enforcement actions for possible violations of the federal securities laws," the filing said. The notice doesn't mean for certain that the SEC will initiate an enforcement proceeding, but does give the recipient an opportunity to demonstrate why the SEC shouldn't.

Andrew Stoltmann, a Chicago-based lawyer, said panels in other cases have denied his requests for Morgan Keegan to reveal the content of the Wells notice. Among his clients is retired National Basketball Association star Horace Grant, who was awarded \$1.46 million for losses associated with the funds. Morgan Keegan is trying to overturn that award.

"They're fighting it tooth and nail," he said. "Obviously, (the Wells notice is) very devastating."

Erez declined to discuss the content of the Wells notice, citing confidentiality requirements.

On Friday, a Finra panel awarded \$2.5 million to investor Andrew Stein in a case involving the same group of funds. A Morgan Keegan spokesman confirmed at the time that the award was the largest in response to a flood of claims filed by investors in the funds.

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Regions has since transferred management of those funds to Hyperion Brookfield Asset Management Inc. of New York, which subsequently liquidated and closed two of the funds, a Morgan Keegan spokesman confirmed on Friday.

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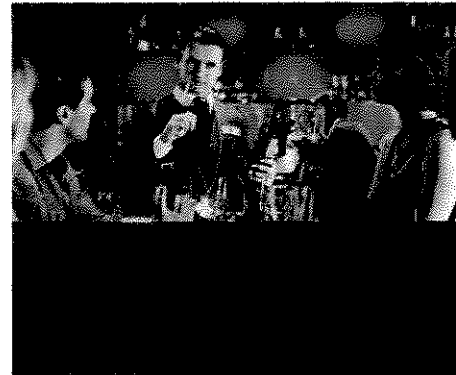
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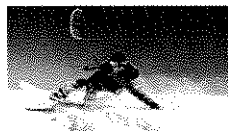
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