

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISER ACT
Release No. 2855 / March 20, 2009

ADMINISTRATIVE PROCEEDING
File No. 3-13199

In the Matter of

**CORNERSTONE CAPITAL
MANAGEMENT, INC., and
LAURA JEAN KENT,**

Respondents.

**ORDER MAKING FINDINGS AND
IMPOSING REMEDIAL SANCTIONS
AND A CEASE AND DESIST ORDER
PURSUANT TO SECTIONS 203(e), 203(f),
AND 203(k) OF THE INVESTMENT
ADVISERS ACT OF 1940**

I.

On September 16, 2008, the Securities and Exchange Commission (“Commission”) instituted public administrative and cease-and-desist proceedings pursuant to Sections 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against Cornerstone Capital Management, Inc. (“Cornerstone Capital”) and Laura Jean Kent (“Kent”) (together, “Respondents”).

II.

In response to these proceedings, Respondents have submitted an Offer of Settlement (“Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Making Findings and Imposing Remedial Sanctions Pursuant to Sections 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940 (“Order”), as set forth below.

III.

On the basis of this Order and Respondents' Offer, the Commission finds that:

Summary

1. From 1997 to 2004, Respondent Laura Kent and her investment advisory firm, Respondent Cornerstone Capital, invested approximately \$15 million of client funds in five investments. Over time, Respondents became aware of substantial evidence demonstrating that the value of each of the investments was severely impaired.

2. Despite this knowledge, Respondents have continued to issue periodic client account statements in which they list the "market price" and "total market value" of these investments as remaining unchanged from their original cost. Respondents also have made numerous material misrepresentations and omissions about the status of the investments, including the fact that some of the promoters were subsequently convicted of fraud. Respondents knew, or were reckless or negligent in not knowing, that the values of the investments had been impaired, yet they continued to charge a 1%-assets-under-management fee based on the initial cost of the investments, collecting hundreds of thousands of dollars more than they would have had the investments been properly valued.

3. By failing to properly value impaired investments, and by misrepresenting and failing to disclose material facts about the investments, Respondents have willfully violated Sections 206(1) and 206(2) of the Advisers Act.

Respondents

4. Cornerstone Capital is a California corporation providing investment advisory services to individual clients and three pooled investment vehicles. Cornerstone Capital registered with the Commission on July 3, 1996 and with California on July 10, 1996. Cornerstone Capital withdrew its Commission registration on July 18, 1997, and re-registered on May 31, 2006, after its purported assets under management surpassed \$25 million. Today, Cornerstone Capital claims to have nearly \$34 million in assets under management. It provides direct, personal advice to clients, who are invested in a combination of domestic and foreign stocks, bonds, and mutual funds, REITs, futures, commodities, and cash, as well as the pooled investment vehicles managed by Kent and Cornerstone Capital described below.

5. Kent, 59, owns and is president of Cornerstone Capital. She resides in Redwood City, California. Kent graduated from Michigan State University with a major in Economics, received a Masters in Economics from Wayne State University, and obtained an MBA from Stanford University. She holds Series 3, 7, 24, 63, and 65 securities licenses. From 1983 to 1994, she was a registered representative with the broker-dealer Kidder, Peabody & Co. Between 1994 and 1996, she was a registered representative of Cornerstone Investments, a

branch of a Bay Area-based broker-dealer, Investment Architects, Inc. She founded Cornerstone Capital in 1996. In 2000, Washington state securities regulators sued Kent and Cornerstone Capital, alleging they misrepresented themselves as a Commission-registered investment adviser and defrauded clients by offering and selling fictitious securities. In 2004, without admitting or denying the allegations, Kent and the firm settled the Washington state proceeding, agreeing to cease and desist from violating state antifraud provisions and acting as an unregistered securities broker.

Other Relevant Entities

6. Cornerstone Investment Circle, LLC (“CIC”) is a Wyoming limited liability company formed by Kent in August 1996. Respondents use CIC as a vehicle for Cornerstone Capital clients to invest in certain alternative private investments. Since 2004, CIC has been invested in two private placement programs described in detail below – the Precious Metals and Mining Program and the Promissory Note Program.

7. Cornerstone Investment Circle I & II, L.P. (“the Partnerships”) are Delaware limited partnerships formed in April 2004. They began operations in July 2004 as vehicles for Cornerstone Capital clients to invest in certain alternative private investments. The Partnerships are invested in a number of programs described below, including the Costa Rican Currency Exchange Program, the Indemnity Bond Bridge Program, and the Cogeneration Project Financing Program.

8. Cornerstone Management Company, LLC (“Cornerstone Management”) is a Delaware limited liability company controlled by Kent and is the general partner of the Partnerships. Cornerstone Management formed in July 2004 with Cornerstone Capital as the managing member.

Background

9. In 1996, Kent formed Cornerstone Capital and registered it as an investment adviser in California. Soon afterwards, she established a limited liability company, CIC, for the purpose of investing clients in alternative private investments. Only Cornerstone Capital clients were eligible to become members of CIC. Thus, Cornerstone Capital has a direct client relationship with all investors in CIC.

10. The Investment Advisory Agreement between Cornerstone Capital and each client states that “[f]ees for Investment Management are computed as a percentage of assets under management at the rate of 1% annualized, subject to the minimum fee.” Each Cornerstone Capital client receives a quarterly account statement that summarizes the performance of that client’s portfolio for that quarter, lists the client’s total assets under management, identifies the “market price” and “total market value” of each investment, and calculates a rate of return from the initial investment. In the quarterly account statements, Cornerstone Capital provides “market price” and “total market value” for all investments, regardless of whether the investment is a

publicly traded stock or bond or an illiquid security, such as interests in CIC and the Partnerships.

11. Around June 30, 2004, Respondents reorganized CIC. Respondents formed the Partnerships and transferred to the Partnerships all investments but the Promissory Note Program and the Precious Metals and Mining Program, both of which remained as portfolio investments in CIC. Only Cornerstone Capital clients were eligible to become limited partners of the Partnerships. Thus, as with CIC members, Cornerstone Capital has a direct client relationship with all Partnership investors.

Respondents Failed to Properly Value Investments That Had Been Impaired.

12. As described above, from 1997 to 2004 Respondents placed more than \$15 million in client funds into five investments, the values of which have become impaired. Respondents knew, or were reckless or negligent in not knowing, that the value of the investments had been impaired. Despite this, Respondents continued to issue client account statements that listed the market value of these investments at the original cost, and misrepresented and omitted other material information about the status of the investments. Through this misconduct, Respondents collected hundreds of thousands of dollars more in management fees than they would have had the investment programs been properly valued. The five impaired investment programs are described below.

The Costa Rican Currency Exchange Program.

13. In 1999, CIC, on Respondents' advice, started the Costa Rican Currency Exchange Program. The program consisted of debt and equity investments in the foreign currency exchange business. Debt investors were to receive monthly interest payments, while equity investors were to have their monthly returns reinvested in the program. The investments allegedly provided working capital for the currency exchange and other related businesses. By mid-2002, Respondents had invested nearly \$7.8 million in funds from a total of 70 clients in the program.

14. In July 2002, Costa Rican authorities raided the currency exchange business, seized all of its assets, and froze its bank accounts totaling \$7 million (out of an estimated total of \$88 million invested by numerous investors, including CIC) while investigating a deposit in the currency exchange program allegedly made by a Canadian drug cartel. Within six months of the raid, one of the two promoters of the currency exchange program was arrested and charged

by Costa Rican authorities with financial fraud. The other promoter fled. In May 2007, one promoter was found guilty of fraud, while the other promoter remains missing.

15. By at least December 2002, Respondents had clear indications that the value of their clients' investment in the currency exchange program was impaired. In October 2002, the currency exchange ceased operation and one month later stopped making or accruing interest payments, and has made no payments to investors since that time. The Respondents learned in December 2002 that one of the promoters had been arrested and charged with fraud and the other forced into hiding and facing a warrant for his arrest. At about the same time, Respondents learned of reports from reputable news agencies that described the currency exchange investment as a classic Ponzi scheme, including a December 13, 2002 *Wall Street Journal* article that Kent read at or near the time of publication.

16. Despite their knowledge of these problems, from December 2002 to the present, Respondents have continued to send their clients account statements showing the value of the currency exchange investment at its original cost plus accrued interest. For example, in four quarterly account statements to clients in 2007, Kent and Cornerstone Capital stated that the "market price" of the Costa Rican Currency Exchange Program had remained the same (and was the same "market price" as it was in 2002). Since January 2003, Cornerstone Capital has collected at least \$213,981 in investment management fees based on this impaired investment.

The Promissory Note Program and Precious Metals and Mining Program.

17. Between 1997 and 1999, Cornerstone Capital clients, through CIC, invested a total of \$6.6 million in two programs referred to as the Promissory Note Program and the Precious Metals and Mining Program. Funds invested in these programs were loaned to a private company that had three separate divisions: a European bank financing group, a California-based technology group, and a group that owned mineral rights in New Mexico. The loans were evidenced by promissory notes issued by the company, which were secured by the company's technology and mineral rights, and were guaranteed by the company's promoters. Under both programs, the company was required to make monthly interest payments to Cornerstone Capital clients.

18. In 2000, the company defaulted on the loans and declared bankruptcy soon thereafter. In April 2001, the company's two promoters pled guilty to charges they had defrauded investors in other unrelated investments through prime bank and Ponzi schemes. On August 14, 2002, the promoters were sentenced to 18 months in federal prison for the fraud.

19. Respondents learned of the promoters' guilty pleas in 2001. In early 2002, Respondents started foreclosure proceedings to secure the company's mineral rights. On February 4, 2003, Respondents filed a lawsuit against the company and the promoters alleging that the promoters defrauded Respondents in their investment dealings. Respondents obtained summary and default judgments against the promoters in October and November 2004 and foreclosed on the company's New Mexico mineral rights in September 2004. However, to date, Respondents have been unable to collect on the judgments or to develop, sell or otherwise realize any value from the foreclosed property.

20. In May 2002, Respondents disclosed to their clients that they had started foreclosure proceedings on the mineral rights. Respondents, however, waited until August 2004 to disclose to clients the promoters' guilty plea, when Respondents wrote to clients that the principals "entered into a plea bargain with Federal authorities regarding a suit filed by a different investor group." Additionally, Respondents did not disclose the lawsuit against the company and the promoters until February 2006, and then stated that Respondents "obtained a Summary Judgment against the two managers." Respondents have never disclosed that they alleged fraud in the legal action against the company and the promoters.

21. By at least February 2003, when they filed a fraud action against the company's promoters, Respondents had substantial information indicating that the value of client investments in the Promissory Note Program and the Precious Metals and Mining Program was impaired. Despite this information, Respondents have continued to value the investments in the Promissory Note Program and the Precious Metals and Mining Program at their original cost in client account statements. Since February 2003, Cornerstone Capital has collected at least \$111,797 in investment management fees based on these impaired investments.

The Indemnity Bond Bridge Program.

22. In June 2004, Cornerstone Capital clients, at the direction of the Respondents, invested \$500,000 in CIC's Indemnity Bond Bridge Program. A majority of these clients invested in the program by redeeming certificates of deposit issued by a large, FDIC-insured bank. Under the program, CIC loaned money to two start-up companies through a promoter. The two start-up companies had applied for lines of credit with the promoter of the program, who in turn had purportedly secured bank loans to fund the lines of credit. The \$500,000 was to be used to purchase insurance policies from unnamed insurance companies guaranteeing that the bank loans would be repaid and allowing the banks to release funds for the lines of credit.

23. Unbeknownst to Cornerstone Capital clients, CIC used \$250,000 of the \$500,000 investment in an effort to obtain a \$2,500,000 line of credit for CIC's own benefit. Respondents

intended to use the proceeds from the line of credit in connection with another ailing investment program. Respondents did not disclose to clients before they invested that Respondents intended to use client funds to help CIC obtain a line of credit for its own benefit.

24. Respondents wired the \$500,000 in client funds to a lawyer for the promoter on June 10 and 15, 2004. On or about June 30, 2004, Respondents created a disclosure document regarding the Indemnity Bond Bridge Program that materially misrepresented a key aspect of the investment. Respondents claimed that a respected 150-person California law firm served as escrow agent for the funds CIC was investing and was “authorized to release those funds upon issuance of [an] insurance binder representing the commitment of the insurance company to issue the bond.” In truth, the law firm was not involved in the transaction and had no role in determining whether any insurance policy was properly issued.

25. Although CIC was to be repaid the full amount of client funds invested (i.e. \$500,000) plus interest by August 2004, by December 2005 it still had received no payments, and Respondents’ inquiries to the promoters throughout 2004 and 2005 met with vague excuses.

26. In December 2005, Federal Bureau of Investigation (“FBI”) agents informed Respondents that the promoters had been indicted for fraud and questioned Kent about CIC’s investment in the Indemnity Bond Bridge Program. Prosecutors subsequently amended the indictment in August 2006 to name CIC as a defrauded investor. On June 22, 2007 Kent testified at the criminal trial of the promoters, who were convicted one month later. They were both sentenced to lengthy prison terms of 7 and 13 years.

27. To this day, Respondents have not informed clients about the information regarding the CIC investment revealed to Respondents in the FBI interview or the indictments. Instead, Respondents continually represent to clients that the investment will pay off soon.

28. From at least December 2005, Respondents have had substantial evidence that the value of their clients’ investment in the Indemnity Bond Bridge Program is impaired. Respondents, however, continue to value the investment at its original cost (the initial investment amount) on account statements to clients. Respondents have collected at least \$6,796 in fees on this investment since January 2006.

The Cogeneration Project Financing (Grain Mill) Program.

29. Between May and August 2003, Cornerstone Capital, on Respondents’ advice and through CIC, provided \$235,000 in client funds to two small California energy companies for the installation and operation of a power cogeneration unit at a grain mill in Central California. The investment consisted of a promissory note to be paid back in seven years with 12% interest. Under the terms of the note, payment was to begin upon the installation and operation of the power generator.

30. From its inception, this program ran into delays and difficulties. After a year with no payments from the principals of the energy companies, Respondents renegotiated the contract, affording the principals more time to repay the loan. Under the terms of the new contract, the principals were to begin payment in October 2004 and continue with monthly payments through September 2011. In this contract, the promoter stated that the power generator had been installed and was fully operational. However, Respondents learned in early 2005 from a third party that the promoters' statements in the contract were false and that the generator had not been installed and was not operational. Since entering the renegotiated contract, Respondents have received only two interest payments, in December 2004 and May 2005, and one payment of principal of \$32,500 in June 2005.

31. From at least June 2005, Respondents faced clear indications that the value of their clients' investment in this program was impaired. Despite this, until June 2007, Respondents valued the investment at its original cost in client account statements. From June 2005 to June 2007 (when Respondents reduced the value of the investment to 50% of cost), Respondents collected at least \$3,724 in fees based on this investment.

Violations

32. As a result of the conduct described above, Respondents willfully violated Sections 206(1) and 206(2) of the Advisers Act, which make it "unlawful to employ any device, scheme, or artifice to defraud any client or prospective client; and to engage in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client."

Disgorgement and Civil Penalties

33. Respondents have submitted a sworn Statement of Financial Condition dated October 30, 2008 and November 6, 2008 and other evidence and have asserted their inability to pay prejudgment interest and a civil penalty.

Undertakings

34. Respondents undertake:

a. To hire, at the expense of Cornerstone Capital, an Independent Consultant not unacceptable to the Commission's staff to review and establish the valuations of any Cornerstone Capital alternative private investments for the next twelve quarters from the date of this Order and make a report on the valuations on a quarterly basis to the San Francisco Regional Office of the United States Securities and Exchange Commission;

b. To submit all contemplated future valuation changes regarding any Cornerstone Capital alternative private investment to an Independent Consultant in advance for a period of three years;

c. To refrain from making any valuation changes of any Cornerstone Capital alternative private investment until after the investment or valuation changes have been approved by the Independent Consultant for a period of three years;

d. To require the Independent Consultant to enter into an agreement that provides that for the period of the engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondents, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Independent Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in the performance of his/her duties under this Order shall not, without prior written consent of the San Francisco Regional Office of the United States Securities and Exchange Commission, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondents, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement;

e. To mail a copy of this Order to each existing investment advisory client and to investors in pooled investment vehicles within 30 days following the entry of this Order. This Order shall be sent by certified mail, along with a cover letter in a form not unacceptable to the staff of the Commission. Respondents shall notify Marc J. Fagel, Regional Director of the San Francisco Regional Office when this undertaking is completed;

f. To provide, from the effective date of this Order until the expiration of 12 months, a copy of this Order to all prospective investment advisory clients not less than 48 hours prior to entering into any written or oral investment advisory contract (or no later than the time of entering into such contract, if the client has the right to terminate the contract without penalty within five business days after entering into the contract). Within one month after expiration of the 12-month period, Respondents shall notify the staff of the Commission by mail directed to Marc J. Fagel, Regional Director of the San Francisco Regional Office, when this undertaking is completed; and

g. To provide, from the effective date of this Order, a hyperlink from the website www.cornerstonecap.com and any other websites maintained by Respondents for the purpose of soliciting and communicating with investment advisory clients to the Commission website's posting of this Order.

35. In addition, Respondents undertake, pursuant to Rule 1101 of the Commission's Rules on Fair Fund and Disgorgement Plans [17 C.F.R. 201.1101], and in consultation with the staff of the Commission, to develop a plan to distribute the disgorgement ordered herein as

provided for in the distribution plan (“Distribution Plan”), which shall be submitted to the Commission within 60 days of the entry of this Order for notice in accordance with Rule 1103 [17 C.F.R. 201.1103]. Following a Commission order approving the Distribution Plan, as provided in Rule 1104 [17 C.F.R. 201.1104], Respondents shall take all necessary and appropriate steps to assist the Commission-appointed Administrator in carrying out the final Distribution Plan.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents’ Offer.

Accordingly, it is hereby ORDERED that:

A. Respondents shall cease and desist from committing or causing any violations and any future violations of Sections 206(1) and 206(2) of the Advisers Act;

B. Respondents are censured;

C. Respondents shall comply with the undertakings enumerated in Section III Paragraphs 34(a) through (g) and 35, above;

D. Respondents shall pay disgorgement of \$335,758.00 and prejudgment interest of \$80,000.00, for a total of \$415,758.00, but payment of such amount except for \$335,758 .00 is waived based upon Respondents’ sworn representations in their Statements of Financial Condition dated October 30, 2008 and November 6, 2008 and other documents submitted to the Commission. The payment required by this Order shall be made in the following installments:

Payment Date	Amount
Within 30 days from the entry of the Offer	\$40,000.00
June 30, 2009	\$20,000.00
September 30, 2009	\$20,000.00
December 31, 2009	\$20,000.00
March 31, 2010	\$23,000.00
June 30, 2010	\$23,000.00
September 30, 2010	\$23,000.00
December 31, 2010	\$23,000.00
March 31, 2011	\$26,000.00
June 30, 2011	\$26,000.00
September 30, 2011	\$26,000.00
December 31, 2011	\$26,000.00

March 31, 2012	\$39,758.00
TOTAL	\$335,758.00

If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of disgorgement, prejudgment interest, and any additional interest accrued pursuant to SEC Rule of Practice 600, shall be due and payable immediately, without further application. Payments shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Laura Kent and Cornerstone Capital Management, Inc. as Respondents in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Marc Fagel, Regional Director, San Francisco Regional Office, Securities and Exchange Commission, 44 Montgomery Street, Suite 2600, San Francisco, CA 94104;

D. Based upon Respondents' sworn representations in their Statements of Financial Condition dated October 30 and November 6, 2008 and other documents submitted to the Commission, the Commission is not imposing a penalty against Respondents; and

E. The Division of Enforcement ("Division") may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondents provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing payment of the maximum civil penalty allowable under the law. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondents was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondents may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of a penalty should not be ordered; (3) contest the imposition of the maximum penalty allowable under the law; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Elizabeth M. Murphy
Secretary