

## **U.S. SECURITIES AND EXCHANGE COMMISSION**

### **SECURITIES EXCHANGE ACT OF 1934**

**Release No. 55356 / February 26, 2007**

### **INVESTMENT ADVISERS ACT OF 1940**

**Release No. 2593 / February 26, 2007**

### **ADMINISTRATIVE PROCEEDING**

**File No. 3-12574**

### **IN THE MATTER OF MELHADO, FLYNN & ASSOCIATES, INC., GEORGE M. MOTZ AND JEANNE MCCARTHY**

The United States Securities and Exchange Commission (Commission) announced the issuance of an Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, and Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940 (Order) against Melhado, Flynn & Associates, Inc. (MFA), George M. Motz (Motz) and Jeanne McCarthy (McCarthy). In the Order, the Division of Enforcement alleges that, from at least January 2001 through April 2005, Motz, the President, CEO and Chairman of the Executive Committee of MFA, engaged in fraudulent trade allocation – “cherry-picking” – at MFA, a registered investment adviser and broker-dealer. During the initial period of the scheme, from at least January 2001 until approximately September 2003, Motz unfairly allocated trades that had appreciated in value during the course of the day to MFA’s proprietary trading account and allocated purchases that had depreciated in value during the day to the accounts of his advisory clients. Beginning in the summer of 2003, Motz engaged in cherry-picking to favor one of the firm’s advisory clients, a hedge fund affiliated with MFA, over his other advisory clients. In addition, in the fall of 2003, Motz, with the assistance of McCarthy, altered order tickets in an attempt to conceal these fraudulent trade allocations from Commission examination staff. As a result of this fraud, MFA realized ill-gotten gains of approximately \$1.4 million. In addition, MFA and Motz earned commissions and fees from advisory clients who were disadvantaged by the cherry-picking scheme.

Based on the above, the Division of Enforcement alleges that MFA, Motz and McCarthy committed primary or secondary violations of the antifraud provisions of the securities laws, among other provisions. The Division of Enforcement seeks cease-and-desist orders, disgorgement, civil penalties, prejudgment interest, and all other remedial sanctions that are appropriate and in the public interest.

A hearing will be scheduled before an administrative law judge to determine whether the allegations contained in the Order are true, to provide the Respondents with an opportunity to dispute these allegations, and to determine what, if any, remedial sanctions and penalties are appropriate. The Commission directed that an administrative law judge

shall issue an initial decision in this matter within 300 days from the date of service of the Order Instituting Proceedings.