

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-13199

In the Matter of

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

Respondents.

PROPOSED PLAN OF DISTRIBUTION

Background

This Plan of Distribution (the “Distribution Plan”) proposes a methodology for distributing the disgorgement paid by Cornerstone Capital Management, Inc. (“Cornerstone Capital”) and Laura Jean Kent (“Kent”) (collectively “Respondents”), in settlement of the administrative proceeding captioned above.

On March 20, 2009, the Respondents consented to the entry of an 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 (“Order”). In the Matter of Cornerstone Capital Management, Inc., and Laura Jean Kent, Investment Advisers Act Rel. No. 2855, Admin. Proc. File No. 3-13199 (Mar. 20, 2009). The Order found that from 1997 to 2004, Kent and her investment advisory firm, 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. Despite this knowledge, Respondents continued to issue periodic client account statements in which they listed the “market price” and “total market value” of these investments as remaining unchanged from their original cost. These statements were mailed to the investors in the impaired programs (the “Harmed Investors”).

Respondents also 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. The Order found that the values of the investments were 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. The Order found that, by failing to properly value impaired investments, and by

misrepresenting and failing to disclose material facts about the investments, Respondents willfully violated Sections 206(1) and 206(2) of the Advisers Act. Respondents consented to the entry of the Order without admitting or denying the Order's findings.

As required by the Order, Respondents are to pay to the Securities and Exchange Commission (the "Commission") disgorgement, jointly and severally, in the amount of \$335,758.00 ("Settlement Amount"). Pursuant to the Order, Respondents will make thirteen quarterly payments beginning 30 days from the entry of the Order. These payments will be made to the Commission, deposited at the U.S. Treasury Bureau of Public Debt for investment in government obligations (the "Distribution Fund"), and will be distributed to the Harmed Investors in three annual payments.

Pursuant to the Order, Respondents undertook to develop a Distribution Plan for the distribution of the Settlement Amount in consultation with the staff of the Commission assigned to this matter (the "Staff") and subject to the approval of the Commission. Upon Commission approval of the Distribution Plan and appointment of a Plan Administrator, as provided in Rule 1104 of the Commission's Rules on Fair Fund and Disgorgement Plans, Respondents will assist the Commission-appointed Plan Administrator in the distribution of the disgorgement to the affected investors. The assets of the Distribution Fund are subject to the continuing jurisdiction and control of the Commission. The Distribution Plan is subject to approval by the Commission, and the Commission retains jurisdiction over the implementation of the Plan.

Administration of the Distribution Plan

1. Purpose. The Distribution Plan has been developed pursuant to the Order and the SEC Rules on Fair Fund and Disgorgement Plans, 17 C.F.R. § 201.1100, *et seq.* (the "Rules"). The purpose of the Distribution Plan is to distribute the disgorgement paid by Respondents in settlement of the above-captioned Administrative Proceeding.

2. Plan Administrator. Rule 1105 provides that the Commission "shall have the discretion to appoint any person, including a Commission employee, as administrator of a plan of disgorgement or a Fair Fund and to delegate to that person responsibility for administering the plan." Respondents have proposed appointing Commission Trial Counsel, Robert L. Mitchell as Plan Administrator. The Plan Administrator will be responsible for, among other things: overseeing the administration of the Distribution Fund, obtaining accurate mailing information for the Harmed Investors, preparing accountings, cooperating with the Tax Administrator in providing the information necessary to accomplish income tax compliance, distributing money from the Distribution Fund to the Harmed Investors in accordance with this Plan, and preparing a final accounting.

3. Bonds. Because the Plan Administrator is a Commission employee, no bond is required pursuant to Rule 1105(c).

Distribution Plan and Procedures

4. Receipt of Additional Funds. Rule 1101(b)(1) provides, among other things, that a distribution plan shall include “[p]rocedures for the receipt of additional funds.” The Distribution Fund will be deposited at the U.S. Treasury Bureau of Public Debt for investment in government obligations as each payment is received. Other than interest from these investments, it is not anticipated that the Distribution Fund will receive any additional funds.

5. Identifying the Harmed Investors. Rule 1101(b)(2) provides that a distribution plan shall include a “[s]pecification of categories of persons potentially eligible to receive proceeds from the fund.” The Harmed Investors are the individuals and entities that invested with Respondents in the impaired programs (as described in the Order) and paid assets-under management fees on the impaired investments. Respondents, in consultation with the Staff, have already identified the seventy-two Harmed Investors and calculated the distribution amounts to be paid to each Investor. If an individual or entity believes it is a Harmed Investor but has not received notice in the mail of their status, they can contact the Plan Administrator at the United States Securities and Exchange Commission, San Francisco Regional Office, 44 Montgomery Street, Suite 2600, San Francisco, CA 94104.

6. Methodology for Determining Distribution Amounts. Respondents have calculated the amounts to be distributed to each Harmed Investor (the “Distribution Amounts”) by first calculating the total amount of management fees paid to the Respondents by the Harmed Investors for each impaired investment (as described in the Order). Second, Respondents calculated the pro rata share for each Harmed Investor based upon the amount each Harmed Investor paid in management fees for the impaired investments. Finally, Respondents took the Settlement Amount and applied the pro rata calculation to determine the amount of disgorgement paid to each Harmed Investor. In the view of the proposed Plan Administrator, this method constitutes a fair and reasonable allocation of the Distribution Fund.

7. Locating and Notifying the Harmed Investors. Rule 1101(b)(3) provides that a plan shall include “[p]rocedures for providing notice to [potential claimants – here, the Harmed Investors] of the existence of the fund and their potential eligibility to receive the proceeds of the fund.” In this case, Respondents and the Staff have already identified the Harmed Investors and calculated the Distribution Amounts to be paid to each. Respondents propose that the Plan Administrator, on behalf of Respondents, provide each Harmed Investor with (a) a notification of the posting of the Distribution Plan, (b) the proposed amount of disgorgement to be paid to the Harmed Investor, and (c) a description of the methodology used to calculate that amount. The Plan Administrator, on behalf of Respondents, will provide such notice by United States Postal Service and will request at that time from the Harmed Investor information necessary to accomplish the distribution, including confirmation of (i) Social Security and Tax Identification number(s), (ii) the payment address, (iii) contact information, and/or (iv) wiring instructions. If the Harmed Investor fails to respond to such notice within twenty-one (21) days from the mailing of the notice, the Plan Administrator will send a second written notice by mail. If the Harmed Investor does not respond to the second notice within twenty-one (21) days, the Plan Administrator will make two attempts to contact the Harmed Investor telephonically.

8. No Claims Process. Rule 1101(b)(4) provides, among other things, that a plan shall include “[p]rocedures for making and approving claims, procedures for handling disputed claims, and a cut-off date for the making of claims.” The Distribution Fund is not being distributed according to a claims-made process, so the procedures for providing notice and for making and approving claims are not applicable.

9. Checks/Electronic Transfers. The Plan Administrator will make three annual payments to the Harmed Investors. The payments will be made by March 31 of each year. The first payment is to commence on or before March 31, 2010. The Plan Administrator may elect to make payment of any Distribution Amount to a Harmed Investor by check or electronic transfer. All checks shall bear a stale date of one year. All payments shall be preceded or accompanied with a communication that includes, as appropriate: (a) a statement characterizing the distribution; (b) a description of the tax information reporting and other related tax matters; (c) a statement that checks will be void (non-negotiable) after one year; and (d) the name of a person to contact with questions concerning the distribution. Distribution checks, on their face, or in the accompanying communication will clearly indicate that the money is being distributed from a Distribution Fund established by the Commission pursuant to the Order in this case. Checks that are not negotiated prior to the stale date shall be voided. Electronic credits will be made only to cash equivalent accounts (*e.g.*, checking or savings accounts).

10. Implementation of the Distribution Plan; Financial Management Service; Validation and Approval of Disbursement of the Fair Fund. The Fair Fund disbursement to investors will be implemented through the United States Department of the Treasury’s Financial Management Service (“FMS”), which will electronically transfer funds through the Automated Clearing House (“ACH”) or mail a check to each payee. The Plan Administrator will compile the information to be submitted to FMS in the required file format, and Commission staff will then obtain authorization from the Commission to disburse pursuant to SEC Rule 1101(b)(6). When the order to disburse is entered, the Commission will transmit the electronic file to FMS for the transfer of funds in accordance with this plan.

11. Returned Checks/Electronic Transfer Procedures. Within 24 to 48 hours of receipt by FMS, funds will be transferred by the ACH or checks will be mailed. FMS will notify the Commission, which, in turn, will notify the Plan Administrator of any returned items due to non-delivery, insufficient addresses, and/or other deficiencies. The Plan Administrator is responsible for researching and reconciling all errors that result in non-delivery and shall submit a supplemental electronic file for payment of the returned items. The Plan Administrator also is responsible for accounting for all payments. In the event that any distribution is in the form of a paper check in lieu of an electronic transfer, each check will state on its face that it is valid for one year. After one year from the date on the distribution check, FMS shall notify the Commission staff of all uncashed checks. FMS will credit the SEC account for the Distribution Fund for the amount of all uncashed checks.

12. Accountings. Once all funds are disbursed through FMS, the Plan Administrator will submit a final accounting for approval by the Commission prior to termination of the Distribution Fund and the discharge of the Plan Administrator.

13. Undisbursed Amounts. Rule 1101(b)(5) requires that the distribution plan make “provision for the disposition of any funds not otherwise distributed.” Upon exhaustion of all procedures to identify and locate the Harmed Investors and to reconcile all errors that result in non-delivery, if any portion of the Distribution Fund remains undisbursed (whether because a Harmed Investor has failed to supply identifying information, because the Plan Administrator was unable to locate a Harmed Investor or its successor, because a Harmed Investor or its successor no longer exists, because a check becomes stale, or for some other reason), it will be remitted to the U.S. Treasury after the final accounting is approved by the Commission.

14. Termination of the Distribution Fund. Rule 1101(b)(5) requires that a distribution plan include a “proposed date for the termination of the fund.. ..” Upon distribution of the funds, the Plan Administrator shall make arrangement for the final payment of taxes and Tax Administrator fees, and shall submit a final accounting to the Commission. The Fair Fund shall be eligible for termination, and the Fund Administrator shall be discharged, after all of the following have occurred: (1) a final accounting, in an SEC standard accounting format provided by the staff, has been submitted by the Fund Administrator for approval of, and has been approved by, the Commission, (2) all taxes, fees and expenses have been paid, and (3) any amount remaining in the Fair Fund has been received by the Commission. When the Commission has approved the final accounting, the staff shall seek an order from the Commission to approve the transfer of any amount remaining in the Fair Fund to the U.S. Treasury, and shall arrange for the termination of the Fair Fund and discharge of the Fund Administrator.

15. Fees and Costs of Administering the Distribution Plan. Fees and other expenses of administering the plan shall be paid first from the interest earned on the funds, and if the interest is not sufficient, then from the corpus.

16. Tax Administrator. The Commission has appointed Damasco & Associates as the tax administrator for the Distribution Fund (the “Tax Administrator”) In the Matter of Cornerstone Capital Management, Inc., and Laura Jean Kent, Securities Exchange Act Rel. No. 60327, Admin. File No. 3-13199 (July 17, 2009). The Plan Administrator will cooperate with the Tax Administrator in providing information necessary to accomplish the income tax compliance, ruling and advice work assigned to the Tax Administrator by the Commission. The Tax Administrator shall be compensated first from the interest earned on the funds, and if that interest is not sufficient, then from the corpus.

17. Qualified Settlement Fund. The Distribution Fund constitutes a Qualified Settlement Fund (“QSF”) under Section 468B(g) of the Internal Revenue Code, 26 U.S.C. § 468B(g), and related regulations, 26 C.F.R. §§1.468B-1 through 1.468B-5.

18. Amendment. The Plan Administrator will obtain approval from the Commission prior to the implementation of any material changes to the Distribution Plan. If material changes are required, this Distribution Plan may be amended upon the motion of the Plan Administrator or upon the Commission's own motion and receipt of Commission approval.

19. Review of Procedures and Computations by Cornerstone Capital. The Commission retains the right to appoint a consultant or firm, at Cornerstone Capital's expense, to review, on the Commission's behalf, Cornerstone Capital's function, procedures, and computations in the distribution process should such a review be deemed necessary.

20. Distribution Timing. The Plan Administrator will use its best efforts to make the first distribution as soon as practicable, but no later than March 31, 2010. The second distribution will be made on or before March 31, 2011. The third and final distribution will be made on or before March 31, 2012.

21. Deadline Extensions. The Staff may extend any procedural deadline contained in the Distribution Plan for good cause shown.

Notice of Proposed Distribution Plan

22. In accordance with Rule 1103, notice of the Distribution Plan shall be published in the SEC Docket, on the Commission's website at www.sec.gov/litigation/fairfundlist.htm, and on Cornerstone Capital's website at www.cornerstonecap.com. Any person or entity wishing to comment on the Distribution Plan must do so in writing by submitting their comments to the Commission within thirty (30) days of the publication date of the Notice of Proposed Plan of Distribution: (a) by sending a letter to the Office of the Secretary, United States Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549-1090; (b) by using the Commission's internet comment form (available at www.sec.gov/litigation/admin.shtml); or (c) by sending an e-mail to rule-comments@sec.gov. Comments submitted by e-mail or via the Commission's website should include the Administrative Proceeding File Number (Admin. Proc. File No. 3-13199) in the subject line. Comments received will be available to the public. Commenters should therefore only submit information that they wish to make publicly available.