

funds belonging to the clients of AA Capital Partners, Inc. (“AA Capital”), a registered investment adviser. Between 2004 and 2006, Stevens aided and abetted AA Capital and its president, John Orecchio (“Orecchio”), in misappropriating more than \$23 million of investor funds. As AA Capital’s chief financial officer, Stevens was responsible for maintaining the adviser’s books and records, managing AA Capital’s client trust accounts and providing accurate monthly statements to investors. Instead, Stevens actively assisted AA Capital’s and Orecchio’s violations of the federal securities laws by failing to maintain the required books and records, improperly withdrawing investor funds from AA Capital’s client trust accounts and transferring those funds for Orecchio’s personal benefit and to pay the firm’s operating expenses. Stevens also falsified the account statements she sent to AA Capital’s clients in order to conceal the improper withdrawals. In so doing, Stevens aided and abetted violations of the antifraud and books and records provisions of the Advisers Act.

Respondent

2. Mary Beth Stevens, age 39, is a resident of Lincoln, Illinois. Stevens graduated from college with an accounting degree. She has never been licensed as a CPA. Stevens joined AA Capital as an accountant shortly after it began operating in 2002. Shortly thereafter, Stevens became AA Capital’s chief financial officer. In 2004, Stevens also became AA Capital’s chief compliance officer. She continued in these roles until her employment was terminated in September 2006. Stevens has never been registered with the Commission in any capacity.

Other Relevant Person and Entity

3. John Orecchio, age 41, is a resident of Arlington Heights, Illinois. Orecchio co-founded AA Capital in February 2002 and acted as its president and managing director from at least April 2002 until August 30, 2006. On September 8, 2006, the Commission filed an emergency action against Orecchio, SEC v. AA Capital Partners, Inc. and John A. Orecchio, Case No. 06-C-4859 (N.D. Ill.), seeking temporary, preliminary and permanent injunctive relief against him based on his aiding and abetting of AA Capital’s violations of Sections 206(1) and 206(2) of the Advisers Act.

4. AA Capital Partners, Inc. is a Delaware corporation headquartered in Chicago, Illinois. AA Capital manages approximately \$200 million in assets for six union clients, five of which are union pension funds, and advises several private equity funds through its affiliated entities. AA Capital is registered with the Commission as an investment adviser. On September 12, 2006, as part of the Commission’s emergency action against Orecchio and AA Capital, the U.S. District Court for the Northern District of Illinois appointed W. Scott Porterfield of the law firm Barack Ferrazzano Kirschbaum & Nagelberg LLP as the receiver over AA Capital.

Background

5. Between May 2004 and September 2006, Stevens facilitated Orecchio’s and AA Capital’s misappropriation of more than \$23 million belonging to AA Capital’s clients. By improperly withdrawing funds from AA Capital’s client trust accounts and transferring those funds

to personal bank accounts at Orecchio's direction and to AA Capital's main bank account to pay the firm's operating expenses, Stevens aided and abetted and caused the misappropriations.

6. In May 2004, Orecchio approached Stevens and told her that he owed a significant amount of money to the Internal Revenue Service based on his ownership interest in one of AA Capital's affiliated private equity funds and a failure by AA Capital's auditors to timely file certain tax returns.

7. Shortly thereafter, at Orecchio's direction, Stevens withdrew over \$600,000 from AA Capital's client trust accounts, deposited the funds into AA Capital's main operating bank account and then wired the money to Orecchio's personal bank account.

8. In the monthly account statements Stevens prepared and sent to AA Capital's clients, Stevens falsely described this withdrawal of funds as a capital call for the AA Capital Equity Fund.

9. Subsequently, Orecchio requested additional funds from Stevens to pay his purported tax liability. Between May 2004 and October 2005, Stevens made at least 20 separate disbursements to Orecchio, totaling over \$5.7 million, for the purported tax liability. In several instances, Orecchio directed Stevens to wire funds directly to the bank accounts of two entities in which he had a personal interest: M & J Animal Rescue, a Michigan horse farm, and Lonyo, LLC, which managed a Detroit strip club.

10. Stevens never obtained any loan documentation from Orecchio regarding these transfers, and never recorded any interest on the funds "borrowed" from the client trust accounts.

11. Between August 2005 and July 2006, Orecchio also requested that Stevens pay \$6.9 million in client funds, which were intended for a private equity real estate investment, to a general contractor employed by M & J Animal Rescue and Lonyo, LLC.

12. In February 2006, Orecchio requested that Stevens provide him with \$505,000 to invest in the same real estate investment, but instead used the money as a deposit on a condominium in Las Vegas, Nevada for his own personal benefit.

13. Between 2004 and 2006, Orecchio also requested reimbursement from AA Capital for numerous items that AA Capital was not entitled to charge back to its clients. These items included more than \$1 million in bogus political contributions, numerous visits to strip clubs and more than \$1.5 million in tickets to sporting events and concerts. These reimbursement requests were submitted to Stevens, and she granted them.

14. In addition, AA Capital's operating expenses far exceeded its revenues during 2005 and 2006. In 2005, AA Capital had revenues of \$2 million and expenses of \$7.15 million. AA Capital spent more than \$4.4 million in salaries and benefits alone in 2005, including more than \$2 million in bonuses. In 2006, AA Capital had a \$5 million operating deficit. In the first nine

months of 2006, Orecchio requested reimbursement for more than \$4.3 million in travel and entertainment expenses.

15. In order to pay these expenses, Stevens repeatedly withdrew funds from AA Capital's client trust accounts. AA Capital never advised its clients that it had used their funds in this manner. Rather, in the monthly client account statements, Stevens falsely characterized the withdrawals from client accounts to cover AA Capital's expenses as capital calls for legitimate investments. Stevens' efforts were instrumental in allowing AA Capital to misappropriate more than \$10 million in client funds to cover the shortfalls between the firm's revenues and expenses.

Stevens' Conduct

16. Stevens was AA Capital's chief financial officer and the sole employee with accounting responsibilities. Accordingly, Stevens was responsible for conducting all of the firm's day-to-day financial operations, which included managing client funds, paying AA Capital's expenses, and maintaining AA Capital's books and records. Stevens also prepared the monthly account statements that AA Capital sent to its clients.

17. In May of 2004, Stevens approved Orecchio's request for a "loan" of \$602,150 from client funds to pay a purported tax liability. Around this same time, Stevens also approved a loan of client funds to AA Capital's co-founder, who also co-owned the firm with Orecchio, for his own tax liability of \$18,228. Even though Stevens was aware that Orecchio and the co-founder each owned 50% of AA Capital, she did not question Orecchio about the difference between the two tax liabilities. In addition, Stevens did not review AA Capital's investment management agreements, which did not permit AA Capital to borrow client funds to pay a principal's personal tax liability, to determine whether Orecchio's requests for "loans" from client funds were proper.

18. In fact, Orecchio's loan request was fraudulent, and Stevens had no authority to grant Orecchio's request for a loan from client funds.

19. Stevens continued to grant Orecchio's requests for additional client funds to pay his purported tax liability. However, Stevens never created any documentation for Orecchio to sign regarding this "loan." Nor did she demand that Orecchio repay this loan or accrue interest on the amounts he "borrowed."

20. Between 2004 and 2006, Stevens played an active role in misappropriating funds from AA Capital's clients. She concealed the misappropriations from AA Capital's clients by characterizing the withdrawals for Orecchio's supposed tax loan as "capital calls" in the monthly account statements she prepared and sent to AA Capital's clients. On her own initiative, Stevens also created a system for withdrawing from each client's trust account a *pro rata* share of any money required to meet Orecchio's requests for funds. For example:

- (a) On August 1, 2004, Orecchio requested \$190,154 from Stevens. On August 2, Stevens directed a transfer of \$104,992.25 from one client's trust account ("Client A"), \$84,867.15 from a second client's trust account ("Client B"), and \$140.60

from a third client's trust account ("Client C"), for a total transfer of \$190,000 to AA Capital's main bank account. Later that same day, Stevens wired \$190,154 from AA Capital's main bank account to Orecchio's personal bank account.

- (b) On September 19, 2004, Orecchio requested \$579,000 from Stevens. On September 20, Stevens directed a transfer of \$331,554.47 from Client A's account, \$268,001.53 from Client B's account, and \$440 from Client C's account, for a total transfer of \$600,000 to AA Capital's main bank account. Later that same day, Stevens wired \$579,000 from AA Capital's main bank account to Orecchio's personal bank account.
- (c) On November 3, 2004, Orecchio requested \$550,000 from Stevens. On November 4, Stevens directed a transfer of \$303,924.93 from Client A's account, \$245,668.07 from Client B's account, and \$407 from Client C's account, for a total transfer of \$550,000 to the AA Capital Equity Fund bank account. On November 5, Stevens wired \$550,000 from the Equity Fund bank account to Orecchio's personal bank account.
- (d) On January 10, 2005, Orecchio requested \$150,000 from Stevens. He asked that Stevens send half of the money to his personal bank account and half to the bank account for M & J Animal Rescue. That same day, Stevens directed a transfer of \$82,888.62 from Client A's account, \$67,000.38 from Client B's account, and \$111 from Client C's account, for a total transfer of \$150,000 to the AA Capital Equity Fund bank account. Also that same day, Stevens wired \$75,000 from the Equity Fund bank account to Orecchio's personal bank account, and \$75,000 from the Equity Fund bank account to M & J Animal Rescue's bank account.
- (e) On January 24, 2005, Orecchio requested \$45,000 from Stevens. That same day, Stevens directed a transfer of \$24,856.59 from Client A's account, \$20,100.11 from Client B's account, and \$33.30 from Client C's account, for a total transfer of \$45,000 to AA Capital's main bank account. One minute after making the transfer request, Stevens wired \$45,000 from AA Capital's main bank account to Orecchio's personal bank account.
- (f) On August 24, 2005, Orecchio requested \$300,000 from Stevens. On August 25, Stevens directed a transfer of \$221,036.31 from Client A's account, \$178,667.69 from Client B's account, and \$296 from Client C's account, for a total transfer of \$400,000 to AA Capital's main bank account. That same day, Stevens wired \$300,000 from AA Capital's main bank account to Orecchio's personal bank account. In the same August 24, 2005 e-mail request, Orecchio advised Stevens that he would need another \$850,000 by November 1 and another undetermined amount on December 31.
- (g) On September 15, 2005, Stevens directed a transfer of \$745,997.55 from Client A's account, \$603,003.45 from Client B's account, and \$999 from Client C's account

for a total transfer of \$1.35 million to AA Capital's main bank account. In an e-mail dated September 15, 2005, Stevens advised Orecchio that she had "called \$1.35 million for [his] tax reimbursement" and asked Orecchio where he would like her to send the money. In a September 15, 2005 reply e-mail, Orecchio advised her to transfer the money to his personal bank account. That same day, Stevens transferred \$1.35 million from AA Capital's main bank account to Orecchio's personal bank account.

- (h) On September 26, 2005, Orecchio requested that Stevens transfer \$75,000 to the bank account for Lonyo, LLC. That same day, Stevens directed a transfer of \$138,147.70 from Client A's account, \$111,667.31 from Client B's account, and \$185 from Client C's account, for a total transfer of \$245,000 to AA Capital's main bank account. Also on September 26, Stevens transferred \$75,000 from AA Capital's main bank account to Lonyo's bank account, and transferred another \$30,000 to M & J Animal Rescue's bank account.

21. From 2005 to 2006, Stevens also was instrumental in AA Capital's misappropriation of more than \$10 million in client funds to cover the vast shortfalls between its revenues and expenses. AA Capital incurred an operational deficit of at least \$5 million in 2005 and another \$5 million during the first eight months of 2006.

22. Stevens regularly agreed to Orecchio's requests for reimbursement of his purported expenses and regularly and improperly withdrew funds from AA Capital's client trust accounts in order to pay for those expenses. In doing so, Stevens reimbursed Orecchio for expenses that were plainly ineligible for payment by AA Capital's clients. Stevens again, on her own initiative, used a system through which she withdrew from the accounts of each of AA Capital's clients a *pro rata* share of any money she needed to cover the firm's expenses. For example:

- (a) Orecchio submitted a December 14, 2005 expense report seeking reimbursement for \$492,566 in expenses. On December 15, 2005, Stevens made a purported "capital call" and withdrew \$240,377 from Client A's account, \$194,301 from Client B's account, and \$322 from Client C's account. Stevens deposited this money into AA Capital's main bank account and used it to cover AA Capital's expenses.
- (b) Orecchio submitted a January 1, 2006 expense report seeking reimbursement for more than \$1.2 million in expenses. Between January 3 and January 12, 2006, Stevens made four purported "capital calls" totaling more than \$560,000 from Client A's account, more than \$450,000 from Client B's account, and more than \$600 from Client C's account. Stevens deposited this money into AA Capital's main bank account and used it to cover AA Capital's expenses.
- (c) Orecchio submitted a February 13, 2006 expense report seeking reimbursement for \$627,551 in expenses. On February 22, 2006, Stevens made a purported "capital call" of \$331,554 from Client A's account, \$268,002 from Client B's account, and

\$444 from Client C's account. Stevens deposited this money into AA Capital's main bank account and used it to cover AA Capital's expenses.

23. During the first nine months of 2006, Stevens approved Orecchio's requests for reimbursement of at least \$4.3 million in travel and entertainment expenses. These expenses included \$1 million for purported political contributions, hundreds of thousands of dollars for private plane rentals, nearly \$1 million for concert and sporting event tickets and more than \$1 million for expenses incurred in Las Vegas, Nevada, including more than \$300,000 for visits to night clubs. Stevens paid these expenses by withdrawing funds from the trust accounts of AA Capital's clients, and falsely characterized these withdrawals as "capital calls" in the monthly statements she prepared and sent to AA Capital's clients.

24. In addition to her role in these misappropriations, Stevens did not fulfill her responsibility as AA Capital's chief financial officer to properly maintain the firm's books and records. Stevens failed to make and keep true, accurate and current the firm's trial balances, cash receipt journals, disbursement records and ledgers.

25. Instead of keeping the firm's records up-to-date, Stevens relied upon a year-end reconciliation of AA Capital's revenue and expenses conducted in conjunction with the firm's annual audit. Stevens' failure to keep up-to-date books and records helped conceal Orecchio's and AA Capital's misappropriations from the firm's clients.

Violations

26. As a result of the conduct described above, Stevens willfully aided and abetted and caused AA Capital's violations of Sections 206(1) and 206(2) of the Advisers Act, which prohibit fraudulent conduct upon any client or prospective client of an investment adviser.

27. As a result of the conduct described above, Stevens willfully aided and abetted and caused AA Capital's violations of Section 206(4) of the Advisers Act and Rule 206(4)-4 thereunder, which prohibit an investment adviser from engaging in any act, practice, or course of business that is fraudulent, deceptive or manipulative. Because AA Capital failed to disclose to its clients its precarious financial condition and its need to misappropriate client funds to stay afloat, AA Capital violated Section 206(4) and Rule 206(4)-4 thereunder.

28. As a result of the conduct described above, Stevens also willfully aided and abetted and caused AA Capital's violations of Section 204 of the Advisers Act and Rules 204-2(a)(1), Rule 204-2(a)(2), and Rule 204-2(a)(6) thereunder, which require investment advisers to make and keep certain records.

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, to impose the sanctions agreed to in Respondent Stevens' Offer.

Accordingly, pursuant to Sections 203(f) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent Stevens cease and desist from committing or causing any violations and any future violations of Sections 204, 206(1), 206(2) and 206(4) of the Advisers Act and Rules 204-2(a)(1), 204-2(a)(2), 204-2(a)(6), and 206(4)-4 promulgated thereunder;

B. Respondent Stevens be, and hereby is, barred from association with any investment adviser.

C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Respondent Stevens shall pay disgorgement of \$79,583.50, prejudgment interest of \$22,472.24 and civil penalties of \$50,000 to the Securities and Exchange Commission. Payment shall be made in the following five installments: Stevens' first payment of \$30,411.14 shall be due within 10 days of the entry of this Order. Stevens' remaining four payments of \$30,411.15 each shall be due no later than 85 days after the immediately preceding payment. 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 civil penalties, plus any additional interest accrued pursuant to SEC Rule of Practice 600 or pursuant to 31 U.S.C. § 3717, 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 Stevens as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Timothy L. Warren, Division of Enforcement, Securities and Exchange Commission, 175 W. Jackson Blvd., Suite 900, Chicago, IL 60604.

E. Such civil money penalty may be distributed pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002 ("Fair Fund distribution"). Regardless of whether any such Fair Fund distribution is made, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that she shall not, after offset or reduction in any Related Investor Action based on Respondent's payment of disgorgement in this action, argue that she is entitled to, nor shall she further benefit by offset or reduction of any

part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that she shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Elizabeth M. Murphy
Secretary