

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73165 / September 22, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16145

In the Matter of

KAREN PERSON,

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTIONS 15(b) AND 21C
OF THE SECURITIES EXCHANGE ACT OF
1934, MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS AND A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Karen Person (“Person” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) that 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, Respondent admits the Commission’s jurisdiction over her and the subject matter of these proceedings, and consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

These proceedings arise out of a fraudulent scheme in which insiders of publicly-traded penny stock companies paid secret kickbacks to a purported corrupt hedge fund manager, who was in fact an undercover agent with the Federal Bureau of Investigation (“Fund Manager”), in exchange for the Fund Manager’s purchase of restricted stock of the penny stock companies on behalf of his purported hedge fund (“the Fund”), which did not actually exist.

Respondent

1. Karen Person, age 63, a resident of Las Vegas, Nevada. During the period June 28, 2011 through August 11, 2011, while Person was the Chief Executive Officer, President and Chairman of The Small Business Company, Inc. (“SBCO”), she participated in an offering of SBCO stock, which is a penny stock. Person pleaded guilty on April 22, 2013 to one count of conspiracy to commit securities fraud and was sentenced on August 16, 2013 to 30 months’ imprisonment to be followed by 36 months’ supervised release in *U.S. v. Karen Person, et al.*, 11-CR-10415-NMG (D. Mass.). She was also ordered to pay a fine of \$5,000.

Other Relevant Entities and Individuals

2. The Small Business Company, Inc. was a Delaware corporation that purported to assist small businesses in achieving growth. It also conducted business under the name Select Business and Corporation Opportunities, Inc. SBCO’s common stock was registered with the Commission pursuant to Exchange Act Section 12(g), but the Commission revoked its registration on January 21, 2014 pursuant Exchange Act Section 12(j) for failure to make required periodic filings. The company’s common stock had been publicly quoted on OTC Pink under the symbol “SBCO,” but was deleted from the OTC system on January 21, 2014 in light of the Commission’s revocation of its registration.

3. James Prange (“Prange”), age 62, is a resident of Greenbush, Wisconsin. Prange operated Northern Equity, Inc. and was in the business of assisting public companies in finding sources of funding. On May 3, 2013, after a jury trial, Prange was convicted of three counts of conspiracy to commit securities fraud and eight counts of wire fraud in *U.S. v. James Prange, et al.*, 11-CR-10415-NMG (D. Mass.). On September 25, 2013, Prange was sentenced to 30 months’ imprisonment to be followed by 24 months’ supervised release. He was also ordered to pay a fine of \$15,250 and to forfeit \$4,750.

4. Edward Henderson (“Henderson”), age 71, resides in Lincoln, Rhode Island. During the period relevant to this Order, Henderson held himself out as a “promoter” or “finder” for small companies seeking venture capital or other sources of funding. On January 11, 2012, Henderson pleaded guilty to one count of wire fraud in *U.S. v. Edward Henderson*, 11-CR-10393-WGY (D. Mass.). On November 26, 2013, Henderson was sentenced to one year’s probation and was ordered to forfeit \$12,650.

Background

5. On or about June 28, 2011, Prange facilitated a telephone call between Henderson and Person. During that call, Henderson told Person that the Fund Manager was willing to invest Fund monies in companies in exchange for a secret fifty percent kickback that would go to the Fund Manager.

6. On or about July 22, 2011, Person met with the Fund Manager, Prange, and Henderson (the "July 22 Meeting"). The Fund Manager explained to Person that he was prepared to invest Fund monies of up to \$5 million in exchange for a secret fifty percent kickback, thereby enabling the Fund Manager to keep half of the money he was supposedly investing on behalf of the Fund.

7. During the July 22 Meeting, Person indicated that she was willing to enter the kickback arrangement.

8. At the July 22 Meeting, the Fund Manager explained to Person the mechanics of the funding, informing Person that the Fund Manager would begin by investing smaller amounts in SBCO stock, while planning to increase the funding installments, or tranches, in the future.

9. At the July 22 Meeting, the Fund Manager further discussed with Person the mechanics of how monies would be kicked back to the Fund Manager. He arranged with Person that SBCO would execute a consulting agreement with a nominee consulting company that he purportedly controlled, even though the Fund Manager told Person that he would not actually provide any consulting services.

10. On various dates between July 26, 2011 and August 15, 2011, Person sent the Fund Manager documents related to the kickback transaction, including consulting agreements between SBCO and the Fund Manager's nominee consulting company and a phony invoice in the name of the Fund Manager's nominee consulting company.

11. On or about July 28, 2011, \$31,000 was sent by wire transfer from a bank account maintained in Massachusetts, purportedly belonging to the Fund, to an SBCO corporate bank account outside of Massachusetts. This wire transfer represented the first tranche of funding to SBCO.

12. On or about August 9, 2011, Person caused a stock certificate representing the purchase by the Fund of SBCO shares to be sent to the Fund Manager.

13. On or about August 11, 2011, Person caused \$15,500 to be sent by wire transfer from an SBCO corporate bank account outside of Massachusetts to a Citizens Bank account purportedly held in the name of the Fund Manager's nominee company in Massachusetts. This wire transfer represented Person's kickback to the Fund Manager from the first tranche of funding to SBCO.

14. As a result of the conduct described above, Person willfully violated Section 10(b) of the Exchange Act and Rule 10b-5(a) thereunder, which prohibit fraudulent conduct in connection with the purchase or sale of securities.

IV.

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

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent Person shall cease and desist from committing or causing any violations and any future violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder.

B. Respondent Person be, and hereby is:

barred from acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act [15 U.S.C. § 78l] or that is required to file reports pursuant to Section 15(d) of the Exchange Act [15 U.S.C. § 78o(d)]; and

barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock.

By the Commission.

Jill M. Peterson
Assistant Secretary