UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 77755 / May 2, 2016

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3773 / May 2, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17240

In the Matter of

MALONEBAILEY, LLP, and JAY PHILLIP NORRIS, CPA,

Respondents.

ORDER INSTITUTING PUBLIC ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 4C AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934 AND RULE 102(e) OF THE COMMISSION'S RULES OF PRACTICE, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted against MaloneBailey, LLP ("MaloneBailey"), and Jay Phillip Norris, CPA ("Norris") (collectively, "Respondents") pursuant to Sections 4C[1] and 21C of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 102(e)(1)(ii) and 102(e)(1)(iii) of the Commission's Rules of Practice.[2]

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[1] Section 4C provides, in relevant part, that:

> The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found . . . (1) not to possess the requisite qualifications to represent others . . . (2) to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct; or (3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations thereunder.

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the "Offers") 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, and except as provided herein in Section V with regard to Respondent Norris, which are admitted, Respondents consent to the entry of this Order Instituting Public Administrative and Cease-and-Desist Proceedings Pursuant to Sections 4C and 21C of the Securities Exchange Act of 1934 and Rule 102(e) of the Commission's Rules of Practice, 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 Respondents' Offers, the Commission finds that:

A. SUMMARY

1. These proceedings arise out of the Respondents' audit of the financial statements of Left Behind Games, Inc. ("LBG"), a penny-stock public company which sold religious themed video games, for LBG's fiscal years ended March 31, 2010 and March 31, 2011. Respondents' audit report, dated August 3, 2011, was included in LBG's Form 10-K filed August 4, 2011.

2. Approximately 88% of LBG's net revenues for its 2011 fiscal year resulted from purported sales of its religious themed video games to Lighthouse Distributors, Inc. ("Lighthouse"). In fact, these revenues were improperly recognized, and were the result of circular sham transactions between LBG and the principal of Lighthouse, Ronald Zaucha ("Zaucha"), a former consultant to LBG and close personal friend of LBG's principal, Troy Lyndon ("Lyndon"). As a result of the recognition of these phony revenues, LBG was purportedly profitable, for the first time in its history. On September 24, 2013, the Commission sued Lyndon and Zaucha alleging

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[2] Rule 102(e)(1)(ii) provides, in pertinent part, that:

> The Commission may censure a person or deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found . . . to have engaged in unethical or improper professional conduct.

Rule 102(e)(1)(iii) provides, in pertinent part, that:

> The Commission may censure a person or deny, temporarily or permanently, the privilege of appearing or practicing before it . . . to any person who is found…to have willfully violated, or willfully aided and abetted the violation of any provision of the Federal securities laws or the rules and regulations thereunder.

violations of, among other provisions, the securities registration and antifraud provisions of Sections 5 and 17(a) of the Securities Act of 1933 (the "Securities Act"), and the antifraud provisions of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and obtained permanent injunctions and other relief against them. *SEC v. Troy Lyndon and Ronald Zaucha*, CV 13-00486 SOM-KSC (D. Hawaii).

3. Respondents' conduct in auditing LBG for fiscal year 2011 resulted in the violation of applicable professional standards constituting improper professional conduct. Additionally, the conduct of Respondent MaloneBailey constituted willful violation of Regulation S-X Rule 2-02(b)(1), and the conduct of Respondent Norris willfully aided and abetted and caused MaloneBailey's violation of Regulation S-X Rule 2-02(b)(1).[3]

B. RESPONDENTS

4. **MaloneBailey, LLP** is a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") which is based in Houston, Texas. It specializes in auditing small public companies. At all relevant times, MaloneBailey had approximately five audit partners. It currently has seven audit partners.

5. **Jay Phillip Norris, CPA**, age 51, was a partner of MaloneBailey from 2009 until December 2015 and is a certified public accountant licensed in the state of Texas. He was also licensed in Oklahoma from August 6, 1999 until his license was canceled on June 13, 2002. During the time period relevant to this proceeding, Norris served as the engagement partner for the services MaloneBailey performed for LBG. These services included audits of the financial statements of LBG for its fiscal years ended March 31, 2010 and March 31, 2011.

C. FACTS

1. The Audit Client and its Related Party, Zaucha

6. **Left Behind Games, Inc. d/b/a Inspired Media Entertainment** was headquartered in Murrieta, California. It was founded by Lyndon on December 31, 2001, and incorporated in Delaware on August 22, 2002. LBG became a public company on February 7, 2006. LBG's stock was registered with the Commission pursuant to Section 12(g) of the Exchange Act, 15 U.S.C. § 78*l*(g). During the relevant period, LBG's stock traded on the OTCQB exchange under the ticker symbol "LFBG." LBG terminated all of its employees and closed its office at the end of 2011. On January 13, 2014, an Initial Decision was issued in *In the Matter of Left Behind Games, Inc.*, AP File No. 3-15522, revoking the registration of the securities of LBG based on LBG's failure to timely file required periodic reports since it filed a Form 10-Q for the period ended September 30, 2011. (Initial Decision Release No. 551.) That decision became final on February 24, 2014. (Exchange Act Release No. 71603.)

[3] A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (*quoting Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949).

7. Between September 2008 and September 30, 2010, LBG hired Zaucha as a "consultant," pursuant to three successive agreements, which provided that Zaucha would be compensated with LBG stock.

8. The agreements provided that the shares Zaucha received were restricted, and could not be sold pursuant to SEC Rule 144 for six months. Zaucha completed a "Seller's Representation Letter" for a "*NON*-AFFILIATE." [Emphasis original.] In the letter, Zaucha represented that he was not an "affiliate" of LBG. Zaucha also stated that he was not a "promoter" of the issuer, LBG, and that the stock "has been owned and fully paid for by the undersigned in excess of one (1) year." Based on these representations, between November 9, 2009, and September 20, 2011, two attorneys issued at least 22 opinion letters addressed to LBG's transfer agent opining that the LBG shares issued to Zaucha were permitted to be sold by Zaucha without registration, pursuant to Rule 144.

9. Zaucha's representations were false. Zaucha in fact was an "affiliate" because he and LBG were both controlled by Lyndon. Zaucha had virtually no source of funds except from the sale of LBG shares.

10. Between August 4, 2009, and October 10, 2011, Zaucha sold over 1.74 billion LBG shares after the restrictive legends were removed, realizing over $4.6 million in proceeds. The sales were made pursuant to Lyndon's instructions, often in emails, regarding the prices at which to sell the shares, how much of the proceeds LBG, Lyndon and Zaucha would each receive, and at which brokerage firms Zaucha should open accounts. Pursuant to instructions from Lyndon, Zaucha repaid $3,282,626 of these proceeds to LBG as purported "early sell fees" under the consulting agreements ($871,169), monies paid by Lighthouse for LBG products ($1,385,649), and other payments ($1,025,808); made net payments to Lyndon of $55,000; paid $5,000 to LBG's auditor, MaloneBailey, and kept $1,278,165 for himself.

11. The sham sales to Lighthouse constituted $1,385,649 in revenues reported by LBG for its fiscal year 2011 ended March 31, 2011. These sales accounted for 88% of the $1,600,407 in net revenues LBG reported that year, as well as the vast majority of LBG's reported $1,485,044 increase in revenues over the prior year's revenues of $115,363.

2. MaloneBailey's Audit of LBG for Fiscal Year 2011

a. MaloneBailey Solicits and Obtains LBG as a Client and Learns Shortly Thereafter that LBG May Have Engaged in Illegal Conduct and Was Under Investigation by the Commission

12. On January 19, 2011, the PCAOB permanently revoked the registration of LBG's then-auditor. Norris contacted LBG when he received a notice that LBG's auditor was deregistered by the PCAOB, and solicited LBG as a client. LBG engaged MaloneBailey shortly thereafter.

13. On January 26, 2011, Lyndon sent an email to Norris purporting to provide Norris with a "solid snapshot regarding our company." Although the email purported to disclose the

company's leadership, history, and corporate staff, including "Exclusive Contractor Staff," Zaucha's consulting arrangement with LBG and his role at the company were nowhere described. Lighthouse is described, however, as LBG's largest client, but without any disclosure that Zaucha was its principal or in any way connected to it.

14. Shortly after MaloneBailey was engaged, Respondents learned of the consulting arrangement that LBG had with Zaucha, and that Zaucha was compensated with LBG shares. Respondents also learned that Zaucha was giving cash back to LBG, purportedly because he sold "too many" of the LBG shares he received in compensation. These payments were referred to, variously, as "early sell fees" and "penalties."

15. The Respondents viewed this transaction as unique because of the provision that Zaucha pay LBG "penalties" for selling too many LBG shares. The Respondents also viewed the arrangement as a potentially illegal attempt to evade the federal securities laws, including the Commission Rule 144 prohibition against selling "restricted" shares.

16. In questioning at least one of the two attorneys who wrote the opinion letters permitting removal of the Rule 144 restrictive legends from Zaucha's shares, Norris learned that the attorney was unaware that Zaucha was giving cash back to LBG. Norris was also unable to obtain an opinion from the company or its attorneys that Zaucha's payment of cash "penalties" back to LBG was legal.

17. Respondents were unaware of any documentation by Zaucha, such as invoices, of any services he provided to LBG. Respondents understood that Zaucha's consulting agreement was the only consulting agreement that resulted in money coming back to LBG.

18. As a result of MaloneBailey's determination that LBG had understated its expenses in previously filed financial statements, on February 15, 2011, LBG filed a Form 8-K current report announcing its restatement of its financial results previously reported in its Form 10-K for its fiscal year ended March 31, 2010, and its Forms 10-Q for its quarters ended June 30, 2009, September 30, 2009, December 31, 2009, June 30, 2010, and September 30, 2010. LBG explained that the prior financial reports "should no longer be relied [upon] due to errors in the accounting for certain share-based compensation arrangements with consultants," because LBG failed to recognize the fair value of the share-based awards in accordance with GAAP, resulting in an understatement of general and administrative expenses. This restatement related primarily to the consulting arrangement that LBG had with Zaucha.

19. After learning about the consulting arrangement, and Zaucha's payments to LBG of "early-sell" fees or penalties derived from the proceeds of his sales of LBG stock, on February 22, 2011, Norris included MaloneBailey's now-retired founding partner on an email exchange regarding whether MaloneBailey should resign from the LBG engagement. The founding partner stated in response, in part, that with regard to whether the firm should resign:

> I view the email you sent to me from Troy Lyndon as both threatening and confusing – he doesn't know what he is doing. His actions are highly illegal and best case is his attorney talked him into it. I really hate resigning (as

> you know) – I regard such as a challenge. However, I'd resign before compromising where such a problem exists. I haven't read the disclosure you proposed and so don't have an opinion, but your situation sounds very bleak.

Norris responded:

> I think we're okay on the disclosure and [*sic*]. The only question is whether this guy is a nut job we are ready to issue barring any intervention. If you don't have a problem, then we should issue.

The founding partner responded to Norris, copying MaloneBailey's partner who had been the quality control partner for several years until about February 14, 2011, and another audit partner. The only MaloneBailey audit partner not included on the email chain was the engagement quality review partner assigned to the LBG audit who had joined the firm on February 14, 2011 as its new quality control partner. The founding partner's response stated:

> This isn't my job and you haven't kept me informed. Troy [Lyndon] isn't rational on this issue and the question is when and how he'll get taken down. I request and assume you'll have clear and explicit disclosures and resign if not.

20. Norris responded to all of the recipients: "No Okay. Disregard my request." The engagement quality review partner, who had recently been hired by MaloneBailey, was unaware of any discussions regarding MaloneBailey resigning from the LBG engagement. Moreover, the engagement quality review partner had limited experience in auditing microcap companies.

21. Subsequently, on March 25, 2011, after consulting with MaloneBailey, LBG sent a letter to the Commission, purportedly pursuant to Section 10A of the Exchange Act, 15 U.S.C. § 78j-1, stating that "certain transactions between the Company and a former Consultant [Zaucha] between September 28, 2009 and June 29, 2010, resulting in $871,169 proceeds which were provided back to the Company as settlement regarding a contractual issue, may have constituted a [Securities Act] Section 5 violation. . . ."

22. Norris subsequently learned that Zaucha was an ex-convict.

23. On May 3, 2011, Commission staff served a subpoena concerning LBG on the founding partner in his capacity as custodian of records of MaloneBailey. Norris became aware of the Commission investigation no later than May 4, 2011. The engagement quality review partner became aware of the investigation no later than May 8, 2011, when he provided a written response to the Commission subpoena, copying Norris.

b. LBG Engages in Sales to Lighthouse, Which Respondents Identify as Potential Sham Circular Transactions

24. After the consulting arrangement between LBG and Zaucha ended, Lyndon and Zaucha came up with a new scheme, which was intended to generate purported LBG revenue.

25. In December 2010, Zaucha formed Lighthouse, which purportedly "purchased" LBG product. LBG and Lighthouse entered into a distribution agreement during the period MaloneBailey was questioning the payment of early-sell "penalties" by Zaucha to LBG. Specifically, pursuant to instructions by Lyndon in a February 8, 2011 email, and orally from Zaucha, in order to conceal Zaucha's control over Lighthouse, including from MaloneBailey, a Lighthouse employee signed the agreement as the purported "general manager" of Lighthouse. As a result, Zaucha's control of Lighthouse was not disclosed. The agreement was also backdated, stating that it was effective "as of" July 2010. The Respondents never spoke with the employee who signed the document on behalf of Lighthouse.

26. During LBG's fiscal year 2011, Lighthouse "purchased" LBG product using $1,385,649 of Zaucha's LBG stock sale proceeds, in sham roundtrip related party transactions.

27. Lighthouse was, by far, LBG's largest customer. In the fiscal year ended March 31, 2011, Lighthouse's $1,385,649 in purchases were 88% of LBG's $1,600,407 in net revenues, which LBG touted in its Form 10-K as an increase of $1,485,044 over its prior year's revenues of $115,363.

28. Rather than re-selling the LBG products, in most instances, Lighthouse distributed them for free. That Lighthouse was giving away LBG product was not disclosed in LBG's financial statements or its Forms 10-Q, 10-Q/A or 10-K, even though MaloneBailey's manager assigned to the engagement was aware that Lighthouse was likely giving away at least some LBG product.

c. Respondents' Audit Failures Regarding LBG's Purported Sales to Lighthouse

i. Lighthouse Materially Modifies a Third-Party Written Confirmation that Respondents Sought and Respondents Fail to Review it or Consider its Contents Consistent with PCAOB Standards

29. Notwithstanding Lyndon's and Zaucha's attempts to conceal Zaucha's ownership of Lighthouse, by at least March 27, 2011, MaloneBailey nevertheless did discover the relationship between Lighthouse and Zaucha. Respondents did not inquire of Lyndon why he did not inform MaloneBailey that Zaucha owned and controlled Lighthouse.

30. Once they discovered Zaucha's role with Lighthouse, Respondents were concerned that Zaucha may have used the proceeds from his sales of LBG stock to fund Lighthouse's purchases of LBG product in a transaction that merely consisted of a "circle of cash."

31. Norris was aware by at least May 5, 2011 that Zaucha was potentially a related party to LBG, notwithstanding that Lyndon had told him that Zaucha was not a related party, and Norris was further aware that he needed to determine whether Zaucha was, in fact, a related party.

32. The only step that MaloneBailey took to determine whether Lighthouse was a real entity was that Norris reviewed its website, which contained a mission statement and a form for potential suppliers to complete. The identity of Lighthouse's principal, Zaucha, was not disclosed on the website. Respondents did not attempt to obtain financial statements from Lighthouse.

33. Respondents did not detect that Lighthouse was in the same building as LBG.

34. Moreover, Respondents failed to detect that Lighthouse was not incorporated until December 2010, five months *after* the distribution agreement was purportedly entered into in July 2010 and LBG's sales to Lighthouse purportedly began. Respondents also reviewed entries in LBG's books purporting to represent sales to Lighthouse. Those entries indicate sales beginning in July 2010, well before Zaucha incorporated Lighthouse in December 2010.

35. Respondents determined that they did not have sufficient audit evidence to support the transaction between LBG and Lighthouse, and they therefore sought a written third-party confirmation from Lighthouse.

36. Accordingly, on July 27, 2011, Norris caused MaloneBailey to send an email to Zaucha attaching a confirmation request Norris had written. That request asked Zaucha to confirm that:

> (1) the sale and purchase transactions between Lighthouse Distributors ("Lighthouse") and Left Behind Games Inc. ("LBG") were "real transactions" whereby Lighthouse purchased and LBG sold copies of LBG video games
>
> (2) the sale and purchase transactions were not in any way connected with the consulting arrangement whereby Ron Zaucha performed consulting services for LBG and received shares of LBG common stock
>
> (3) whether or not the proceeds from the sale of LBG's stock were used to purchase the video games from LBG [and]
>
> (4) there were no side agreements related to the consulting agreement or the sale/purchase transactions[.]

Prior to sending the request, Norris emailed two of MaloneBailey's four partners, including the engagement quality review partner, advising them of the evidence obtained, his concerns over the nature of the relationship between Zaucha and LBG, and explaining that a consultant who had provided cash back to the company was also the owner of the company that was buying substantial amounts of LBG product and contributing a significant amount of the company's revenue. The only suggestion in response to the email was made by the engagement quality review partner, who

suggested that Lighthouse should confirm there was no right of return. This suggestion did not address, however, the adequacy of the confirmation for determining whether Lighthouse or Zaucha was a related party to LBG, or whether the sale of product by LBG to Lighthouse was part of a "circle of cash," as suspected by Norris.

37. On or about July 29, 2011, Zaucha transmitted to MaloneBailey a letter he signed on behalf of Lighthouse which confirmed each of the above points, except that rather than confirming the key point of whether the proceeds from the sale of LBG stock were used to purchase the video games from LBG, Zaucha merely stated that "[a]ll decisions to invest monies into my distribution company were independent from any sale of LBG common stock." No one at MaloneBailey inquired of Zaucha what he meant by this statement or why he altered the language provided to him by MaloneBailey in the original proposed confirmation letter.

38. In particular, Norris did not discuss the confirmation response with anyone. Nor did he notice that the confirmation was differently worded than his confirmation request. Norris also never attempted to obtain access to Lighthouse's financial statements to verify its source of funds for purchasing over $1.3 million of games from LBG, or whether Lighthouse ever generated any revenue.

39. Notwithstanding that Zaucha had altered the wording of the confirmation and did not confirm that proceeds from the sale of LBG stock were not used to purchase the video games from LBG, MaloneBailey stated in its Engagement Completion Document, prepared by the audit manager and included in the audit work papers, that the confirmation "specifically" confirmed that Lighthouse's sales to LBG were "completely unrelated" to the consulting arrangements and there were no side agreements "indicating that Ron Zaucha would use proceeds from sales of LBG stock to re-purchase games from the Company."

40. All of the representations Zaucha made were materially false. As described above, the transaction between LBG and Lighthouse was, in fact, a "circle of cash" and a sham, as Respondents suspected. Had Respondents known Zaucha's representations were false, they would likely not have viewed the $1.38 million in sales to Lighthouse as legitimate revenue. In fact, MaloneBailey likely would not have certified the financial statements and would have resigned if it had learned that Zaucha was transferring proceeds from his sale of LBG shares directly to Lyndon or LBG.

ii. Respondents Rely on LBG's CEO's Representation that He Did Not Have the Necessary Information to Make a Requested Management Representation

41. Norris caused MaloneBailey to request that Lyndon sign a management representation letter confirming, among other things, many of the same facts Respondents had asked Zaucha to confirm.

42. Lyndon made various standard representations in the management representation letter, which he signed on August 3, 2011. Lyndon's representations included that the financial information was recorded consistent with GAAP and that there were no material transactions that had not been properly recorded, and that LBG management had no knowledge of any fraud

affecting the company which involved management. Additionally, Lyndon confirmed that transactions involving "related parties," as defined by GAAP provision FASB ASC 850-10, were properly recorded or disclosed.

43. Regarding LBG's transactions with Lighthouse, Lyndon made the following specific representations in the August 3rd management representation letter: (1) the sale and purchase transactions between Lighthouse and LBG were "real transactions whereby Lighthouse purchased and LBG sold copies of LBG video games"; (2) the sale and purchase transactions "were not in any way connected with the consulting arrangement whereby Ron Zaucha performed consulting services for LBG and received shares of LBG common stock"; and (3) "there were no side agreements related to the consulting agreement or the sale and purchase transactions."

44. Each of Lyndon's representations was false and consequently the purported sales to Lighthouse should not have been recognized as revenue in accordance with GAAP. These improperly recognized sales, constituting about 88% of LBG's reported 2011 revenues, were material to LBG's financial statements. Moreover, when he signed the management representation letter, Lyndon removed the representation requested by the Respondents that the consulting fees paid by LBG to Zaucha were not a source of funds for Lighthouse's purchases from LBG, falsely claiming that "I do not have access to the information that would be necessary to make a determination regarding the source of funds regarding Lighthouse's purchases."

45. Upon MaloneBailey's receipt on August 4, 2011, of Lyndon's email making the above representation and attaching the signed management representation letter, a senior auditor on the engagement team inquired of the audit manager in an email "Is it OK that he took that line out of the rep letter?" There is no record that the audit manager responded to this inquiry.

46. Norris had requested that Lyndon make the specific representations regarding the transactions with Lighthouse because, in his view, revenue recognition of the Lighthouse purchases from LBG was dependent on the answers to some of the questions asked of Lyndon. Respondents nevertheless relied on the management representation letter provided by Lyndon and accepted Lyndon's omission of the representation that the consulting fees paid by LBG were not a source of funds for Lighthouse's purchases from LBG without taking further audit steps, notwithstanding that one of the engagement team members had specifically inquired whether omission of the representation from the letter was all right. In particular, Respondents took no steps to obtain financial information from Lighthouse or its bank regarding its source of funds to purchase LBG products.

iii. Certain Language Proposed by Respondents for Inclusion in the 10-K that Would Have Disclosed that the True Source of Funds for Lighthouse to Purchase Games from LBG was Zaucha's LBG Stock Sale Proceeds, was Not Included in the Form 10-K

47. During the audit of LBG for fiscal year 2011 ended March 31, 2011, Respondents identified management override, revenue recognition and the consulting agreements with Zaucha including share-based compensation as audit risks requiring heightened scrutiny. Respondents also

identified the transactions between Lighthouse and LBG as warranting additional scrutiny because of the share-based compensation arrangement and consulting agreement that had existed between Zaucha and LBG.

48. On or about July 29, 2011, Respondents presented Lyndon the following draft language as a proposed audit adjustment to be inserted into the footnotes to the financial statements contained in LBG's Form 10-K. The proposed language would have disclosed that Lighthouse had, in fact, purchased video games from LBG with proceeds from sales of LBG stock originally issued to Zaucha:

> During the year ended March 31, 2011, the company recorded $1,385,649 of revenues from Lighthouse Distributors, Inc., a Company owned by Consultant # 1. *Lighthouse Distributors, Inc. purchased the video games from the Company with the proceeds from sales of the Company's common stock originally issued under the consulting arrangements described above.* These sales transactions were not related to the original consulting agreements and were not contemplated at the time the consulting agreements were entered into.

[Emphasis added.] Norris believed that it was appropriate to disclose these facts, if true, as part of the relationship between LBG and Zaucha in the Form 10-K.

49. The Form 10-K was nevertheless filed with the Commission on August 4, 2011, without the italicized language, rendering the Form 10-K materially false and misleading. Prior to the Form 10-K being filed, Respondents possessed a draft with Respondents' proposed language clearly marked as deleted.

d. LBG Files a False and Misleading Form 10-K

50. Among other results, LBG's financial statements included in its Form 10-K reported net revenues of $1,600,407 for the fiscal year ended March 31, 2011, compared to $115,363 in restated net revenues for its fiscal year ended March 31, 2010. These revenues included approximately $1,385,649 in revenues purportedly earned from sales to Lighthouse which were, in fact, the result of the sham transactions described above. Additionally, the Form 10-K stated that LBG's $1,600,407 in annual revenues "represented an increase in our revenues of $1,485,044," and that "The revenue level increased primarily due to sales of $1,427,091 in the year ended March 31, 2011 without comparable sales in the prior fiscal year, primarily because such sales were to a new customer which focuses on distribution to non-profit organizations," and that customer accounted for approximately 88% of LBG's revenues.

51. These reported revenue figures were false and misleading because they were generated mostly from sham transactions using the proceeds of the sale of Zaucha's stock. Also, the Form 10-K did not disclose that the sales to the distributor, Lighthouse, were sham transactions for which revenues were not in fact properly recognized.

52. The Form 10-K failed to disclose that the transactions between LBG and Lighthouse were related party transactions. Instead, the "Transactions with Related Persons"

portion of Item 13 of LBG's Form 10-K, entitled "Certain Relationships and Related Transactions, and Director Independence," falsely stated "We have not entered into any arrangements which are considered transactions with related persons." Nor was the related party nature of the transactions disclosed anywhere else in the annual report, including in the financial statements and notes thereto.

53. Notwithstanding that Norris was concerned by at least May 5, 2011 that Zaucha might be a related party, the only audit step Respondents took to determine if Zaucha was in fact a related party was to review an LBG stock ledger to determine whether Zaucha owned more than 5% of LBG stock. Although during the audit MaloneBailey transmitted a "Related Party Worksheet" to Lyndon which stated in part that related parties were defined as "affiliates," Respondents had no discussions with Lyndon as to what constituted an "affiliate." Nor did Respondents discuss with Lyndon whether Lighthouse or Zaucha met another definition of "related party" included in the worksheet – "other parties with which the company may deal with if one party controls or can significantly influence management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests." Instead, Respondents simply accepted Lyndon's representation on the form he signed on or about July 13, 2011, that the number of transactions with related parties was "none." They did so even though they were aware that Lyndon represented to Norris in a March 28, 2011 email that Zaucha was not a related party merely "because he is not an officer, director, family member or 5% owner of the company," and Norris knew that this definition of related party was too narrow.

54. On or about November 9, 2011, Zaucha wired $5,000 to MaloneBailey in partial payment of LBG's audit fee. Norris was unaware that Zaucha paid part of LBG's audit fee; had he known, it would have raised concerns in his mind that Zaucha was a related party. MaloneBailey, however, had no internal controls that would cause the audit partner to be notified if someone other than the client is paying the audit fee. This is so even though it is not uncommon for MaloneBailey clients to have "funding sources [that] are not traditional."

55. MaloneBailey's audit report contained an opinion in which it represented that it had conducted its audit of LBG's fiscal 2011 financial statements in accordance with standards of the PCAOB. In fact, as set forth below, Respondents' audit was not conducted in accordance with PCAOB standards.

3. Respondents Engaged In Improper Professional Conduct

56. In performing the audit of LBG for fiscal year 2011, the Respondents engaged in improper professional conduct that resulted in a violation of applicable professional standards, as set forth below.

a. Numerous "Red Flags" were Present, Indicating Heightened Scrutiny was Warranted

57. Respondents identified revenue recognition as an area requiring heightened scrutiny, and further identified the sales to Lighthouse, which accounted for 88% of LBG's

revenues, as potential related party transactions and/or circular sham transactions. Numerous additional "red flags" were present, including:

a. Early in the audit process, Respondents learned a number of facts which indicated that Lyndon had made misrepresentations and omissions of material fact to other professionals and that Respondents therefore could not rely on management representations, including that: (1) at least one of two attorneys who wrote the opinion letters that the restrictions on Zaucha's shares should be lifted was unaware of LBG stock sale proceeds being paid back by Zaucha to LBG as purported "early sell" fees or penalties, and would not opine that the "penalties" were legal; (2) the attorney retained by LBG as an independent counsel to conduct an internal investigation resigned shortly after being hired by LBG, prior to Respondents commencing the audit.

b. Respondents also learned early in the audit process facts which indicated that Lyndon had made misrepresentations and omissions to the Respondents themselves, including that: (1) Lyndon failed to disclose or identify Zaucha as a major contractor, or explain his relationship to Lighthouse, in his January 26, 2011 email to Norris describing the company; and (2) in early February 2011, Lyndon provided a distribution agreement between LBG and Lighthouse which did not identify Zaucha as its principal, a fact Respondents learned during the course of the audit.

c. Respondents learned in May 2011 that the Commission was conducting an investigation of LBG.

d. The consulting agreement with Zaucha was the only consulting agreement LBG had where monies were paid back to LBG by the consultant.

e. Zaucha was an ex-convict, a fact which Norris learned during the course of the audit.

f. There was little documentation supporting the sales by LBG to Lighthouse.

g. Lyndon and Zaucha altered language proposed by Respondents for inclusion in three major documents regarding Lighthouse's source of funds to purchase LBG products: (i) the third-party confirmation which was to be signed by Zaucha on behalf of Lighthouse; (ii) the management representation letter signed by Lyndon; and (iii) LBG's Form 10-K.

b. Respondents Violated Applicable Professional Standards

i. Respondents Failed to Act with Due Professional Care or Exercise Professional Skepticism

58. PCAOB standards require that "[d]ue professional care is to be exercised in the performance of the audit and the preparation of the report." AU 150. Additionally, "[d]ue professional care requires the auditor to exercise professional skepticism. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor uses the knowledge, skill, and ability called for by the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence." AU 230.07. Furthermore, "[i]n exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest." AU 230.09. Exercise of due professional care also requires that an auditor obtain reasonable assurance about whether the financial statements are free from material misstatement, whether caused by error or fraud. AU 230.10. PCAOB standard AU 230.12 also provides that "Characteristics of fraud include (*a*) concealment through collusion among management. . . or third parties; (*b*) withheld, misrepresented, or falsified documentation; and (*c*) the ability of management to override or instruct others to override what otherwise appears to be effective controls."

59. Respondents failed to act with due professional care because, in spite of the materiality of the revenue from Lighthouse – it was 88% of LBG's total revenue, representing a 1,287% revenue increase over the prior year – and the many "red flags" presented that neither LBG management nor Lighthouse's principal, Zaucha were, in fact, being truthful, Respondents nevertheless accepted a confirmation, management representation letter, and Form 10-K which did not make the representations they themselves had requested regarding Lighthouse's source of funds to purchase LBG product. Respondents accepted the deficient documentation as adequate even after they themselves: (1) identified revenue recognition as an area requiring heightened scrutiny because of the risk of fraud and (2) identified Zaucha as a potential related party.

60. Moreover, all three "characteristics of fraud" described in AU 230.12 were present. Respondents were: (1) aware of the potential for collusion between management (Lyndon) and third party Zaucha; (2) presented with documentation that withheld key representations Respondents themselves had sought, specifically the confirmation from Lighthouse, the management representation letter and the Form 10-K; and (3) aware that LBG had ineffective internal controls over financial reporting, as disclosed in LBG's Form 10-K.

61. Additionally, Respondents detected possible illegal acts by LBG, as evidenced by large payments by LBG for unspecified services to a consultant, Zaucha, and the fact that the Commission was conducting an investigation of LBG. AU 317.09. Although Respondents did identify LBG's illegal acts to the extent that they caused LBG to issue a letter to the Commission purportedly pursuant to Section 10A of the Exchange Act, and considered whether other similar transactions or events may have occurred, Respondents failed to act with due care in that they failed to apply adequate procedures to identify potential additional illegal acts, as required by AU 317.11. Nor did Respondents consider the implications of LBG's prior illegal acts in relation to

other aspects of the audit. Among other things, Respondents failed to consider the reliability of representations by management, as required by AU 317.16, in light of "the relationship of the perpetration and concealment, if any, of the illegal act to specific control procedures and the level of management or employees involved." In particular, Respondents were aware that Lyndon, LBG's CEO, had failed to disclose Zaucha's role as a consultant when initially describing major company contractors, and had failed to disclose Zaucha's relationship to Lighthouse. Respondents nevertheless relied on Lyndon's representations in the management representation letter and Form 10-K, and Zaucha's representations in the confirmation. Moreover, Respondents were aware that LBG had disclosed that its internal control over financial reporting was ineffective.

ii. Respondents Failed to Obtain Sufficient Competent Evidence

62. The PCAOB standards require that an auditor obtain sufficient competent evidential matter concerning the assertions in an issuer's financial statements, and state that an auditor's substantive procedures "must include reconciling the financial statements to the [underlying] accounting records." AU 326.19.

63. Respondents did not obtain sufficient evidential matter concerning the sales by LBG to Lighthouse. In particular, because there was little or no underlying documentation supporting these sales, Respondents viewed a confirmation from Zaucha as essential, but then failed to obtain a confirmation which, as Respondents requested, confirmed whether the source of funds for Lighthouse to make the purchases was proceeds from Zaucha's sales of LBG stock.

iii. Respondents Failed to Evaluate the Confirmation Received from Lighthouse

64. The PCAOB standards require that "the auditor should evaluate the combined evidence provided by the confirmations and the alternative procedures to determine whether sufficient evidence has been obtained about all the applicable financial statement assertions." AU 330.33. In particular, the auditor should consider: (a) the reliability of the confirmation; (b) the nature of any exceptions; (c) the evidence provided by other procedures and (d) whether additional evidence is needed. AU 330.33.

65. Respondents failed to consider that the confirmation provided by Lighthouse was differently worded from the confirmation they requested, in that the confirmation provided did not clearly state whether Lighthouse's source of funds for the purchases of LBG products was, in fact, the proceeds from Zaucha's LBG stock sales. They further failed to consider that the same omission was made by Lyndon from the management representation letter he signed on behalf of LBG.

iv. Respondents Improperly Relied on Management Representations

66. PCAOB standards require that the independent auditor obtain written representations from management as part of an audit, and provide guidance concerning the

representations to be obtained. AU Section 333.01. Among other things, management's refusal to furnish a written representation constitutes a limitation on the scope of the audit. AU 333.13.

67. Respondents failed to consider whether Lyndon's purported inability to furnish a written representation that Zaucha's LBG stock sale proceeds did not constitute a source of funds for Lighthouse to purchase LBG products was a limitation on the scope of the audit. Instead, they simply relied on Lyndon's representation that he did not have access to information regarding the source of funds used by Lighthouse to make the purchases. This failure was significant because Zaucha's similar failure to explicitly confirm that the sales proceeds were not a source of funds meant that Respondents had no evidence confirming that LBG's sales to Lighthouse were not circular sham transactions, as Respondents suspected.

v. Respondents Failed to Properly Audit the Related Party Transactions Between LBG and Zaucha and Lighthouse

68. PCAOB standards require that an auditor seek to identify related party relationships and transactions and to satisfy himself concerning the required financial statement accounting and disclosure. AU 334.01. The standards caution that "[t]he auditor should . . . be aware of the possibility that transactions with related parties may have been motivated solely, or in large measure" by certain conditions, including lack of sufficient working capital to continue the business, and dependence on a single or relatively few customers or transactions for the continuing success of the company. AU 334.06.

69. Although Respondents identified the transactions with Lighthouse as potential related party transactions, they failed to take adequate steps and gather sufficient competent evidence to determine the true nature of these transactions and ensure their disclosure. In particular, the only audit step Respondents took was to ask Lyndon to complete and sign a form identifying related parties. Lyndon identified no related parties. PCAOB standards provide that, when necessary to fully understand a particular transaction, certain additional procedures should be considered, including confirming the transaction amount and terms, inspecting evidence in possession of the other party to the transaction, and confirming or discussing significant information with intermediaries, such as banks, to obtain a better understanding of the transaction. AU 334.10. In this case, the only step Respondents took was to prepare and transmit a confirmation request to Lighthouse, which they failed to detect was materially modified by Zaucha in his confirmation response. Notwithstanding that Zaucha had modified the key portion of the confirmation so that it did not state whether the source of Lighthouse's funds to purchase LBG product was Zaucha's LBG stock sale proceeds, Respondents did not seek bank or other records to determine Lighthouse's source of funds.

vi. Respondents Failed to Follow PCAOB Reporting Standards

70. PCAOB standards require that the auditor can determine that he or she is able to express an unqualified opinion only if the audit has been conducted in accordance with generally accepted auditing standards and the auditor has been able to apply all the procedures the auditor considers necessary in the circumstances. AU 508.22. Restrictions on the scope of the audit,

whether imposed by the client or by circumstances, including the inability to obtain sufficient competent evidential matter, or an inadequacy in the accounting records, may require the auditor to qualify or disclaim an opinion. AU 508.22.

71. Respondents failed to properly qualify or disclaim an opinion notwithstanding their inability to gather sufficient competent evidence that the funds used by Lighthouse to purchase LBG product in transactions constituting 88% of LBG's net revenue did not consist of proceeds from Zaucha's stock sales.

vii. Respondent MaloneBailey Failed to Comply with PCAOB Quality Control Standards

72. PCAOB standards require that each CPA firm have a system of quality control for its auditing practice. QC 20.01. Among other requirements, policies and procedures should be established for deciding whether to accept or continue a client relationship and whether to perform a specific engagement for that client. QC 20.14. "Such policies and procedures should provide the firm with reasonable assurance that the likelihood of association with a client whose management lacks integrity is minimized." QC 20.14. Such policies and procedures should also provide reasonable assurance that the audit firm appropriately considers the risks associated with providing professional services in the particular circumstances. QC 20.15(b).

73. MaloneBailey did not have procedures that provided reasonable assurance that minimized the likelihood of association with a client whose management lacked integrity, particularly where the client's prior audit firm had had its PCAOB registration revoked.

74. MaloneBailey's lack of adequate quality control procedures is also evident from the email chain between Norris, MaloneBailey's founding partner, and every other MaloneBailey audit partner except the engagement quality review partner. PCAOB standards require that policies and procedures be established to provide reasonable assurance that audit personnel consult with individuals within or outside the firm when appropriate, including when dealing with complex, unusual or unfamiliar issues. QC 20.19. Although Norris attempted to consult with the founding partner regarding whether or not to resign from the LBG engagement, and the founding partner specifically stated that what Lyndon was doing was "highly illegal," the founding partner left it to Norris to decide whether to resign, while appearing to in fact discourage resignation, thus undermining the attempt by Norris to consult consistent with quality control standards. Norris in fact did then tell his partners to "Disregard my request" for advice.

75. MaloneBailey also failed to prepare appropriate documentation to demonstrate compliance with any policies and procedures designed to provide reasonable assurance that the likelihood of association with a client whose management lacks integrity is minimized, as required by PCAOB standards. QC 20.25. MaloneBailey failed to document the above email communications in the work papers. Accordingly, the engagement quality review partner was unaware that resignation from the engagement had ever been considered.

76. MaloneBailey also did not have monitoring procedures in place which would have enabled it to obtain reasonable assurance that its system of quality control was effective, as required by PCAOB standards. QC 30.03. Among other things, MaloneBailey did not have

procedures which included analysis and assessment of decisions related to acceptance and continuance of client relationships and engagements. QC 30.03.

77. Finally, the firm's procedures shielded the engagement partner from knowledge of who was paying the client's audit fee, even though, as Norris knew, MaloneBailey's clients often had "funding sources [that] are not traditional." As explained above, Lighthouse paid part of LBG's audit fee. Had Norris been aware of this fact, it would have raised concerns in his mind about the relationship of LBG and Lighthouse.

4. MaloneBailey Violated Regulation S-X Rule 2-02(b)(1) and Norris Willfully Aided and Abetted and Caused MaloneBailey's Violation of Rule 2-02(b)(1)

78. Rule 2-02(b)(1) of Regulation S-X requires an accountant's report to state whether the audit was made in accordance with generally accepted auditing standards. "Thus, an auditor violates Regulation S-X Rule 2-02(b)(1) if it issues a report stating that it had conducted its audit in accordance with PCAOB Standards when it had not." *See In re Andrew Sims, CPA*, Rel. No. 34-59584, AAER No. 2950 (Mar. 17, 2009).

79. As a result of the conduct described above, MaloneBailey violated Rule 2-02(b)(1) of Regulation S-X by issuing an audit report stating that it had conducted its audit in accordance with PCAOB Standards when it had not, and Norris willfully aided and abetted and caused MaloneBailey's violation of Rule 2-02(b)(1) of Regulation S-X.

D. FINDINGS

80. Based on the foregoing, the Commission finds that the Respondents engaged in improper professional conduct within the meaning of Section 4C(a)(2) of the Exchange Act and Rule 102(e)(1)(ii) of the Commission's Rules of Practice.

81. Based on the foregoing, the Commission finds that MaloneBailey willfully violated and Norris willfully aided and abetted and caused MaloneBailey's violation of Rule 2-02(b)(1) of Regulation S-X within the meaning of Section 4C(a)(3) of the Exchange Act and Rule 102(e)(1)(iii) of the Commission's Rules of Practice.

E. UNDERTAKINGS

82. **Review of Written Policies and Procedures.** MaloneBailey shall, within sixty (60) days after the entry of this Order, evaluate its existing audit and interim review written policies and procedures and shall make such revisions as may be necessary in order to adopt, implement, and enforce written policies and procedures to provide reasonable assurance that MaloneBailey's audits are conducted in compliance with (a) the relevant Commission regulations and (b) audit standards relevant to appearing and practicing before the Commission. MaloneBailey shall review and revise as necessary its written policies and procedures in the following areas: (i) client and engagement acceptance and client retention; (ii) contact with and requests for information from prior auditors; (iii) performing proper risk assessment; (iv) obtaining sufficient appropriate audit evidence; (v) third-party confirmations; (vi) work paper review and signoff by

engagement partners and engagement quality reviewers; (vii) related-party transactions and relationships; (viii) detection of fraud; (ix) scrutiny of management representations; (x) exercise of due care; and (xi) documentation in audit work papers of consultations among MaloneBailey audit personnel concerning any of the above areas with regard to any audit MaloneBailey conducts, including personnel not specifically assigned to the audit who the audit team formally or informally consults regarding any of the above issues.

83. **Retention of an Independent Consultant.** MaloneBailey shall retain, within sixty (60) days after entry of this Order, an independent consultant ("Independent Consultant"), not unacceptable to the Commission staff. MaloneBailey will require the Independent Consultant to review and evaluate the audit and interim review policies and procedures of MaloneBailey including but not limited to those set forth in paragraph 82 above. MaloneBailey will require that the Independent Consultant's review and evaluation assess the foregoing areas to determine whether MaloneBailey's policies and procedures are adequate and sufficient to ensure compliance with (a) the relevant Commission regulations and (b) audit standards relevant to appearing and practicing before the Commission. MaloneBailey will cooperate fully with the Independent Consultant and will provide reasonable access to firm personnel, information, and records as the Independent Consultant may reasonably request for the Independent Consultant's reviews and evaluations. MaloneBailey will provide the Commission staff a copy of the engagement letter detailing the scope of the Independent Consultant's responsibilities.

84. Within ninety (90) days of being retained, MaloneBailey will require the Independent Consultant to issue a report ("Report") to MaloneBailey: (a) summarizing the Independent Consultant's review and evaluation; and (b) making recommendations, where appropriate, reasonably designed to ensure that audits conducted by MaloneBailey comply with Commission regulations and relevant audit standards. At MaloneBailey's direction, the Independent Consultant shall provide a copy of the Report to the Commission staff when the Report is issued.

85. MaloneBailey shall adopt, as soon as practicable, all recommendations of the Independent Consultant in the Report. Provided, however, that within thirty (30) days of issuance of the Report, MaloneBailey may advise the Independent Consultant in writing of any recommendation that it considers to be unnecessary, outside the scope of this Order, unduly burdensome, or impractical. MaloneBailey need not adopt any such recommendation at that time, but instead may propose in writing to the Independent Consultant and the Commission staff an alternative policy or procedure designed to achieve the same objective or purpose. MaloneBailey and the Independent Consultant shall engage in good-faith negotiations in an effort to reach agreement on any recommendations objected to by MaloneBailey. In the event that the Independent Consultant and MaloneBailey are unable to agree on an alternative proposal within thirty (30) days, MaloneBailey shall abide by the determinations of the Independent Consultant.

86. **Undertakings Regarding Audit Training.** MaloneBailey shall require each audit and attest professional to complete successfully, within 180 days of entry of this Order:

a. *A Minimum of 24 Hours of Audit-Related Training.* The audit-related training requirement shall cover the topics specified in paragraph 82 above, with no less than four

hours being devoted to related party identification and testing. The audit-related training requirement may be fulfilled by completing course(s) conducted in accordance with the applicable state boards of accountancy.

b. *A Minimum of Eight (8) Hours of Fraud-Detection Training.* The training shall include techniques in detecting and responding to possible fraud in the course of public company audits by audit clients or by employees, officers or directors of audit clients.

87. To ensure the independence of the Independent Consultant, MaloneBailey: (1) shall not have the authority to terminate the Independent Consultant or substitute another independent compliance consultant for the initial Independent Consultant, without the prior written approval of the Commission staff; and (2) shall compensate the Independent Consultant and persons engaged to assist the Independent Consultant for services rendered pursuant to this Order at their reasonable and customary rates.

88. MaloneBailey shall require the Independent Consultant to enter into an agreement that provides that for the period of 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 MaloneBailey, 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 performance of his/her duties under this Order shall not, without prior written consent of the Commission's Los Angeles Regional Office, enter into any employment, consultant, attorney-client, auditing or other professional relationship with MaloneBailey, 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.

89. **Provision of a Copy of this Order to New Public Company Audit Clients.** MaloneBailey undertakes that it shall forthwith provide a copy of this Order to any new public company audit client which engages it between the date this Order is issued and the date that the Independent Consultant certifies in writing that the undertakings discussed herein have been completed to the satisfaction of the Independent Consultant.

90. **Certification of Compliance.** MaloneBailey shall certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance, including the certification by the Independent Consultant described above in paragraph 89. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Karen Matteson, Senior Trial Counsel, Los Angeles Regional Office, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

IV.

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

Accordingly, it is hereby ORDERED, effective immediately, that**:**

A. MaloneBailey shall cease and desist from committing or causing any violations and any future violations of Rule 2-02(b)(1) of Regulation S-X.

B. MaloneBailey is censured.

C. MaloneBailey shall comply with the undertakings set forth in Section III.E. above.

D. Norris shall cease and desist from committing or causing any violations and any future violations of Rule 2-02(b)(1) of Regulation S-X.

E. Norris is denied the privilege of appearing or practicing before the Commission as an accountant.

F. After three years from the date of this order, Respondent Norris may request that the Commission consider his reinstatement by submitting an application (attention: Office of the Chief Accountant) to resume appearing or practicing before the Commission as:

1. a preparer or reviewer, or a person responsible for the preparation or review, of any public company's financial statements that are filed with the Commission. Such an application must satisfy the Commission that Respondent's work in his practice before the Commission will be reviewed either by the independent audit committee of the public company for which he works or in some other acceptable manner, as long as he practices before the Commission in this capacity; and/or

2. an independent accountant. Such an application must satisfy the Commission that:

    (a) Respondent, or the public accounting firm with which he is associated, is registered with the PCAOB in accordance with the Sarbanes-Oxley Act of 2002, and such registration continues to be effective;

    (b) Respondent, or the registered public accounting firm with which he is associated, has been inspected by the PCAOB and that inspection did not identify any criticisms of or potential defects in the Respondent's or the firm's quality control system that would indicate that the respondent will not receive appropriate supervision;

(c) Respondent has resolved all disciplinary issues with the PCAOB, and has complied with all terms and conditions of any sanctions imposed by the PCAOB (other than reinstatement by the Commission); and

(d) Respondent acknowledges his responsibility, as long as Respondent appears or practices before the Commission as an independent accountant, to comply with all requirements of the Commission and the PCAOB, including, but not limited to, all requirements relating to registration, inspections, concurring partner reviews and quality control standards.

G. The Commission will consider an application by Respondent Norris to resume appearing or practicing before the Commission provided that his state CPA license is current and he has resolved all other disciplinary issues with the applicable state boards of accountancy. However, if state licensure is dependent on reinstatement by the Commission, the Commission will consider an application on its other merits. The Commission's review may include consideration of, in addition to the matters referenced above, any other matters relating to Respondent's character, integrity, professional conduct, or qualifications to appear or practice before the Commission.

H. MaloneBailey shall, within 14 days of the entry of this Order, pay disgorgement of $54,000 and prejudgment interest of $7,519.35, totaling $61,519.35, to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600.

I. MaloneBailey shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of $100,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

J. Respondent Norris shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of $10,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

K. Payments ordered in paragraphs H through J above must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying the Respondent by name as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Karen Matteson, Senior Trial Counsel, Los Angeles Regional Office, Securities and Exchange Commission, 444 South Flower Street, Suite 900, Los Angeles, CA 90071.

L. 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, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they 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 Securities and Exchange Commission. 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.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the findings in this Order are true and admitted by Respondent Norris, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent Norris under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

By the Commission.

Brent J. Fields
Secretary