



**ORDER**

**II.**

In anticipation of institution of these proceedings, and pursuant to PCAOB Rule 5205, Respondents have each submitted an Offer of Settlement ("Offers") that the Board has determined to accept. Solely for purposes of these proceedings and any other proceedings brought by or on behalf of the Board, or to which the Board is a party, and without admitting or denying the findings herein, except as to the Board's jurisdiction over them and the subject matter of these proceedings, which is admitted, Respondents consent to entry of this Order Instituting Disciplinary Proceedings, Making Findings, and Imposing Sanctions ("Order") as set forth below.<sup>3/</sup>

**III.**

On the basis of Respondents' Offers, the Board finds<sup>4/</sup> that:

**A. Respondents**

1. Patrick Rodgers, CPA, PA is, and at all relevant times was, a public accounting firm located in Altamonte Springs, Florida and licensed in the State of Florida (License No. AD64983). At all relevant times, the Firm has been registered with the Board pursuant to Section 102 of the Act and PCAOB Rules. At all relevant times, the Firm was the external auditor for the issuer identified below.

2. Patrick E. Rodgers, 73, of Altamonte Springs, Florida, is a certified public accountant licensed in the State of Florida (License No. AC38732) and in the State of New Jersey (License No. 20CC00537600). At all relevant times, he was the sole owner

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<sup>3/</sup> The findings herein are made pursuant to the Respondents' Offers and are not binding on any other persons or entities in this or any other proceeding.

<sup>4/</sup> The sanctions that the Board is imposing on Respondents in this Order may be imposed only if a respondent's conduct meets one of the conditions set out in Section 105(c)(5)(A) of the Act, 15 U.S.C. § 7215(c)(5). The Board finds that each Respondent's conduct described in this Order meets the conditions set out in Section 105(c)(5), which provides that certain sanctions may be imposed in the event of (A) intentional or knowing conduct, including reckless conduct, that results in a violation of the applicable statutory, regulatory, or professional standard; or (B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

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of the Firm and an associated person of a registered public accounting firm as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i).

**B. Summary**

3. This matter concerns Respondents' repeated failure to comply with PCAOB rules and auditing standards in connection with the audits of Baltia Air Lines, Inc.'s ("Baltia") financial statements for the years ended December 31, 2008, December 31, 2009, December 31, 2010, and December 31, 2011 ("Baltia Audits"). As detailed below, Respondents failed to obtain sufficient competent evidential matter, failed to exercise due professional care, and failed to exercise professional skepticism in connection with the Baltia Audits.

**C. Respondents Violated PCAOB Rules and Auditing Standards**

4. In connection with the preparation and issuance of an audit report, PCAOB rules require that a registered public accounting firm and its associated persons comply with the Board's auditing standards and related professional practice standards.<sup>5/</sup> An auditor may express an unqualified opinion on an issuer's financial statements only when the auditor has formed such an opinion on the basis of an audit performed in accordance with PCAOB standards.<sup>6/</sup> Among other things, those standards require that an auditor exercise due professional care.<sup>7/</sup>

5. For audits of fiscal years beginning before December 15, 2010, those standards require that the auditor obtain sufficient competent evidence to afford a reasonable basis for an opinion regarding the financial statements.<sup>8/</sup> For audits of fiscal years beginning on or after December 15, 2010, those standards require that the auditor

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<sup>5/</sup> PCAOB Rules 3100, *Compliance with Auditing and Related Professional Practice Standards*, 3200T, *Interim Auditing Standards*.

<sup>6/</sup> See AU § 508.07, *Reports on Audited Financial Statements*.

<sup>7/</sup> AU § 150.02, *Generally Accepted Auditing Standards*; AU § 230, *Due Professional Care in the Performance of Work*.

<sup>8/</sup> See AU § 326, *Evidential Matter*.

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plan and perform the audit to obtain appropriate audit evidence that is sufficient to support the opinion expressed in the auditor's report.<sup>9/</sup>

6. Among the elements of due professional care is professional skepticism, "an attitude that includes a questioning mind and a critical assessment of audit evidence."<sup>10/</sup> An auditor acting with professional skepticism "should not be satisfied with less than persuasive evidence because of a belief that management is honest."<sup>11/</sup> In addition, "professional skepticism requires an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud has occurred."<sup>12/</sup>

7. For audits of fiscal years beginning before December 15, 2010, PCAOB standards require that an auditor respond to risks of material misstatement due to fraud through the application of professional skepticism in gathering and evaluating audit evidence.<sup>13/</sup> An auditor's assessment of such risk should "be ongoing throughout the audit,"<sup>14/</sup> and an auditor should consider whether the "nature of auditing procedures performed may need to be changed to obtain evidence that is more reliable or to obtain additional corroborative information."<sup>15/</sup> For audits of fiscal years beginning on or after December 15, 2010, PCAOB standards state that the auditor's responses to the assessed risks of material misstatement, particularly fraud risks, should involve the application of professional skepticism in gathering and evaluating audit evidence.<sup>16/</sup> Examples of the application of professional skepticism in response to assessed fraud risks are "modifying the planned audit procedures to obtain more reliable evidence

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<sup>9/</sup> See Auditing Standard No. 15, *Audit Evidence* ("AS 15").

<sup>10/</sup> AU § 230.07.

<sup>11/</sup> AU § 230.09.

<sup>12/</sup> See AU § 316.13, *Consideration of Fraud in a Financial Statement Audit*.

<sup>13/</sup> Id. at § 316.46.

<sup>14/</sup> Id. at § 316.68.

<sup>15/</sup> Id. at § 316.52.

<sup>16/</sup> See Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS 13") ¶ 7.



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regarding relevant assertions" and "obtaining sufficient appropriate evidence to corroborate management's explanations or representations concerning important matters."<sup>17/</sup>

8. PCAOB standards require an auditor to obtain satisfaction concerning the purpose, nature, and extent of related party transactions through the performance of certain procedures that extend beyond the inquiry of management.<sup>18/</sup> In addition, these standards require the auditor to evaluate the information available concerning the related party transaction in order to satisfy the auditor that it has been adequately disclosed in the financial statements.<sup>19/</sup>

### Audit of Baltia's 2008 Financial Statements

9. At all relevant times, Baltia Air Lines, Inc. ("Baltia") was a New York corporation with its principal office in Queens, New York. At all relevant times, Baltia's common stock was registered with the Commission under Section 12(g) of the Securities Exchange Act of 1934 ("Exchange Act") and was quoted on the OTC Bulletin Board. At all relevant times, Baltia was an "issuer" as defined in Section 2(a)(7) of the Act and PCAOB Rule 1001(i)(iii). As disclosed in its public filings, Baltia was a start-up United States airline "currently conducting the FAA [Federal Aviation Administration] Air Carrier Certification process...."<sup>20/</sup> Baltia's public filings disclosed that it intended to commence non-stop air service from New York to St. Petersburg, Russia upon completion of certification.

10. The Firm audited Baltia's financial statements for the year ended December 31, 2008, and issued an unqualified opinion dated April 13, 2009. The 2008 audit report was included in a Form 10-K filed by Baltia with the Commission on April 15, 2009. Rodgers had final responsibility for the 2008 Baltia audit.

11. Baltia reported in its Form 10-K for the year ended December 31, 2008 that since inception, Baltia had raised approximately \$7.4 million in cash proceeds from

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<sup>17/</sup> Id.

<sup>18/</sup> See AU § 334.09, *Related Parties*.

<sup>19/</sup> Id. at § 334.11.

<sup>20/</sup> Baltia Air Lines, Inc., Form 10-K for the year ended December 31, 2008 (Apr. 15, 2009).

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the issuance of common stock.<sup>21/</sup> For the same year ended December 31, 2008, Baltia reported total assets of approximately \$765,000 with the majority consisting of a cash balance of approximately \$724,000.<sup>22/</sup> Baltia disclosed that the CEO had received compensation of \$133,400 and 28 million stock options, but did not disclose any compensation paid to other Baltia executives.<sup>23/</sup> Baltia's Form 10-K indicated that there were no related party transactions.<sup>24/</sup>

12. During the 2008 Baltia audit, Respondents became aware of information indicating that certain payments and stock issuances were being made to, or on behalf of, officers of Baltia. After becoming aware of these transactions during the audit, Respondents failed to perform sufficient procedures. Other than obtaining management representations, Respondents failed to take any steps to evaluate the nature of these transactions.

13. Despite being aware of these transactions and the lack of disclosure in the financial statements related to these transactions, Respondents failed to exercise due care and professional skepticism and failed to perform sufficient procedures. Although a portion of the compensation paid to the CEO in 2008 was disclosed, Respondents failed to evaluate additional payments and stock issuances made to or on behalf of the CEO and payments and stock issuances to other officers of Baltia.<sup>25/</sup>

14. Respondents also failed to perform any audit procedures to determine whether the transactions reflected related party transactions. Specifically, Respondents failed to perform any procedures to evaluate this issue and to determine whether any related party transactions should have been disclosed.

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<sup>21/</sup> Id.

<sup>22/</sup> Id.

<sup>23/</sup> Id.

<sup>24/</sup> Id.

<sup>25/</sup> Baltia subsequently filed a Form 10-K/A for fiscal year 2008 with the Commission, disclosing related party transactions and additional executive compensation for the year ended December 31, 2008. See Baltia, Form 10-K/A for the year ended December 31, 2008, (Feb. 22, 2013).

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Audit of Baltia's 2009 Financial Statements

15. A Form 8-K was filed on April 6, 2011 stating that the originally filed Form 10-K for Baltia's financial statements for the year ended December 31, 2009 should not be relied on due to an auditor independence violation by the predecessor auditor. Rodgers was subsequently engaged to "re-audit" the 2009 financial statements. The Firm audited Baltia's financial statements for the year ended December 31, 2009, and issued an unqualified opinion dated April 28, 2011. The 2009 audit report was included in a Form 10-K/A filed by Baltia with the Commission on May 2, 2011. Rodgers had final responsibility for the 2009 Baltia audit.

16. Baltia reported in its Form 10-K/A for the year ended December 31, 2009 that since inception, Baltia had raised approximately \$11.1 million in cash proceeds from the issuance of common stock.<sup>26/</sup> For the same year ended December 31, 2009, Baltia reported total assets of approximately \$2.1 million consisting of a cash balance of approximately \$1.4 million and a net equipment balance of approximately \$0.7 million.<sup>27/</sup> The equipment balance consisted primarily of a used Boeing 747.<sup>28/</sup> In 2009, Baltia disclosed that the CEO had received compensation of \$123,395, but did not disclose any compensation paid to other Baltia executives.<sup>29/</sup> Baltia's Form 10-K/A indicated that there were no related party transactions.<sup>30/</sup>

17. As in the 2008 audit, Respondents continued to be aware of information indicating that certain payments and stock issuances were being made to, or on behalf of, officers of Baltia. After becoming aware of these transactions during the audit, Respondents failed to perform sufficient procedures. Other than obtaining management representations, Respondents failed to take any steps to evaluate the nature of these transactions.

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<sup>26/</sup> Baltia Air Lines, Inc., Form 10-K/A for the year ended December 31, 2009 (May 2, 2011).

<sup>27/</sup> Id.

<sup>28/</sup> Id.

<sup>29/</sup> Id.

<sup>30/</sup> Id.

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18. Despite being aware of these transactions and the lack of disclosure in the financial statements related to these transactions, Respondents failed to exercise due care and professional skepticism and failed to perform sufficient procedures. Although compensation paid to the CEO in 2009 was disclosed, Respondents failed to evaluate additional payments and stock issuances made on behalf of the CEO and payments and stock issuances to other officers of Baltia. Respondents also failed to perform any audit procedures to determine whether the transactions reflected related party transactions.<sup>31/</sup>

### Audit of Baltia's 2010 Financial Statements

19. The Firm audited Baltia's financial statements for the year ended December 31, 2010 and issued an unqualified opinion dated May 9, 2011. The 2010 audit report was included in a Form 10-K/A filed by Baltia with the Commission on May 11, 2011.<sup>32/</sup> Rodgers had final responsibility for the 2010 Baltia audit.

20. Baltia reported in its Form 10-K/A for the year ended December 31, 2010 that since inception, Baltia had raised approximately \$15.5 million in cash proceeds from the issuance of common stock.<sup>33/</sup> For the same year ended December 31, 2010, Baltia reported total assets of approximately \$3.3 million consisting largely of a net equipment balance of approximately \$2.9 million.<sup>34/</sup> The equipment balance consisted primarily of two used Boeing 747's.<sup>35/</sup> In 2010, Baltia disclosed that no cash compensation had been paid to any executive officers and disclosed that the CEO was

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<sup>31/</sup> Baltia subsequently filed a Form 10-K/A for fiscal year 2009 with the Commission, disclosing related party transactions and additional executive compensation for the year ended December 31, 2009. See Baltia, Form 10-K/A for the year ended December 31, 2009, (Mar. 1, 2013).

<sup>32/</sup> The original Form 10-K was filed on April 18, 2011 and contained unaudited financial statements and no auditor opinion.

<sup>33/</sup> Baltia Air Lines, Inc., Form 10-K/A for the year ended December 31, 2010 (May 11, 2011).

<sup>34/</sup> Id.

<sup>35/</sup> Id.

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granted 100 million options.<sup>36/</sup> Baltia's Form 10-K/A reported one related party transaction with respect to a loan arrangement with a company owned by a Baltia director.<sup>37/</sup>

21. As in the 2008 and 2009 audits, Respondents continued to be aware of information indicating that certain payments and stock issuances were being made to, or on behalf of, officers of Baltia. After becoming aware of these transactions during the audit, Respondents failed to perform sufficient procedures. Other than obtaining management representations, Respondents failed to take any steps to evaluate the nature of these transactions.

22. Despite being aware of these transactions and the lack of disclosure in the financial statements related to these transactions, Respondents failed to exercise due care and professional skepticism and failed to perform sufficient procedures. Although stock options granted to the CEO in 2010 were disclosed, Respondents failed to evaluate additional payments and stock issuances made on behalf of the CEO and payments and stock issuances to other officers of Baltia. Respondents also failed to perform any audit procedures to determine whether the transactions reflected related party transactions.<sup>38/</sup>

### Audit of Baltia's 2011 Financial Statements

23. The Firm audited Baltia's financial statements for the year ended December 31, 2011 and issued an unqualified opinion dated April 16, 2012. The 2011 audit report was included in a Form 10-K filed by Baltia with the Commission on April 16, 2012. Rodgers had final responsibility for the 2011 Baltia audit.

24. Baltia reported in its Form 10-K for the year ended December 31, 2011 that since inception Baltia had raised approximately \$23.3 million in cash proceeds from

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<sup>36/</sup> Id.

<sup>37/</sup> Id.

<sup>38/</sup> Baltia subsequently filed a Form 10-K/A for fiscal year 2010 with the Commission, disclosing additional related party transactions and additional executive compensation for the year ended December 31, 2010. See Baltia, Form 10-K/A for the year ended December 31, 2010, (Mar. 13, 2013).

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the issuance of common stock.<sup>39/</sup> For the same year ended December 31, 2011, Baltia reported total assets of approximately \$3.8 million consisting largely of a net equipment balance of approximately \$3.4 million.<sup>40/</sup> The equipment balance consisted primarily of two used Boeing 747's.<sup>41/</sup> In 2011, Baltia disclosed that no cash compensation had been paid to any executive officers with the exception of \$51,000 paid to the Executive Vice President. Baltia also disclosed that approximately 160 million shares of common stock were issued to executive officers in 2011.<sup>42/</sup> Baltia's Form 10-K again indicated one related party transaction in connection with a loan arrangement with a company owned by a Baltia director.<sup>43/</sup>

25. As in the 2008, 2009, and 2010 audits, Respondents continued to be aware of information indicating that certain payments and stock issuances were being made to, or on behalf of, officers of Baltia. After becoming aware of these transactions during the audit, Respondents failed to perform sufficient procedures. Other than obtaining management representations, Respondents failed to take any steps to evaluate the nature of these transactions.

26. Despite being aware of these transactions and the lack of disclosure in the financial statements related to these transactions, Respondents failed to exercise due care and professional skepticism and failed to perform sufficient procedures. Respondents also failed to perform any audit procedures to determine whether the transactions reflected related party transactions.<sup>44/</sup>

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<sup>39/</sup> Baltia Air Lines, Inc., Form 10-K for the year ended December 31, 2011 (April 16, 2012).

<sup>40/</sup> Id.

<sup>41/</sup> Id.

<sup>42/</sup> Id.

<sup>43/</sup> Id.

<sup>44/</sup> Baltia subsequently filed a Form 10-K/A for fiscal year 2011 with the Commission, disclosing additional related party transactions and additional executive compensation for the year ended December 31, 2011. See Baltia, Form 10-K/A for the year ended December 31, 2011, (Mar. 21, 2013).

**ORDER**

**IV.**

In view of the foregoing, and to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports, the Board determines it appropriate to impose the sanctions agreed to in Respondents' Offers. Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 105(c)(4)(E) of the Act and PCAOB Rule 5300(a)(5), Patrick Rodgers, CPA, PA and Patrick E. Rodgers, CPA are hereby censured;
- B. Pursuant to Section 105(c)(4)(B) of the Act and PCAOB Rule 5300(a)(2), Patrick E. Rodgers, CPA is barred from being an associated person of a registered public accounting firm, as that term is defined in Section 2(a)(9) of the Act and PCAOB Rule 1001(p)(i);
- C. After two (2) years from the date of this Order, Patrick E. Rodgers, CPA may file a petition, pursuant to PCAOB Rule 5302(b), for Board consent to associate with a registered public accounting firm;
- D. Pursuant to Section 105(c)(4)(A) of the Act and PCAOB Rule 5300(a)(1), the registration of Patrick Rodgers, CPA, PA is revoked;
- E. After two years (2) years from the date of this Order, Patrick Rodgers, CPA, PA may reapply for registration by filing an application pursuant to PCAOB Rule 2101.

ISSUED BY THE BOARD.

/s/ Phoebe W. Brown

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Phoebe W. Brown  
Secretary

March 6, 2014