PCAOB
Public Company Accounting Oversight Board

1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8433
www.pcaobus.org

Inspection of
KBL, LLP
(Headquartered in New York, New York)

Issued by the

Public Company Accounting Oversight Board

February 24, 2011

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2011-078

Public Company Accounting Oversight Board

Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.

2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.

3. Board inspections encompass, among other things, whether the firm has failed to identify departures from U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.

INSPECTION OF KBL, LLP

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm KBL, LLP ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.[1/]

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.[2/] A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

1/ The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

2/ See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from September 10, 2008 to September 12, 2008 and on September 18, 2008. These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

Number of offices	4 (Tampa, Florida; Newark, New Jersey; and Forest Hills and New York, New York)
Ownership structure	Limited liability partnership
Number of partners	2
Number of professional staff[3/]	21
Number of issuer audit clients[4/]	21

[3/] "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

[4/] The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.[5/] To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.[6/] It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of two issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies.[7/] The deficiencies identified in both of the audits reviewed included deficiencies of such

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[5/] This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

[6/] When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

[7/] PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration* significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.[8/] Those deficiencies were -

(1) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to potentially material misstatements in the audited financial statements concerning the issuer's failure to properly record a loss applicable to a minority interest;

(2) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to potentially material misstatements in the audited financial statements concerning the issuer's failure to record stock-based expense; and

(3) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to potentially material misstatements in the audited financial statements concerning the issuer's failure to record a loss contingency.

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of Omitted Procedures After the Report Date, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

[8/] In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.

Each of the deficiencies described above related to auditing an aspect of an issuer's financial statements that the issuer revised in a restatement prior to the primary inspection procedures.[9/]

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

[9/] The Board inspection process did not in every case include review of additional audit work related to the restatement.

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.[10/]

[10/] In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

KBL LLP

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

December 21, 2010

Mr. George H. Diacont
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Re: Response to Draft Inspection Report of September 2008

Dear Mr. Diacont:

KBL, LLP ("KBL") is pleased to submit its response to the Public Company Accounting Oversight Board's (the "Board") December 13, 2010 draft of its Report of Inspection of KBL in September of 2008 (the "Draft Report"). We support the Board's inspection process and believe the Board's comments and observations enhance the ability to achieve our shared objective of improving audit quality.

KBL is fully committed to the highest standards of audit quality. We continually monitor the systems and processes for our audit practice, including quality control, and make changes to methodologies, policies, and procedures when we identify improvements that could enhance audit quality. We view the inspection process as one of these opportunities, and, as such, take it very seriously. We will thoroughly consider the Board's comments and concerns addressed in the Draft Report, assess whether we have already initiated actions that address those concerns, and consider whether additional actions are necessary.

We have evaluated the matters identified by the Board's inspection team for each of the Issuer audits described in Part 1A of the Draft Report and have taken appropriate actions. In evaluating the matters identified, we have considered whether it was necessary to perform additional auditing procedures in accordance with AU 390, *Consideration of Omitted Procedures After the Report Date* and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*. In all three instances, we performed and documented additional auditing procedures which resulted in restatements of the two engagements. Although a restatement was necessary, the opinions contained in the particular Issuer audited financial statements did not change as a result of the additional procedures.

We appreciate the opportunity to present this response and look forward to working with the professional at the Public Company Accounting Oversight Board in future inspections.

Sincerely,

KBL, LLP

KBL, LLP

110 Wall Street, 11th Floor, New York, NY 10005 212.785-9700

KBL LLP
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

December 21, 2010

Mr. George H. Diacont
Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Re: Written Response to Draft Inspection Report of KBL, LLP of September of 2008

Dear Mr. Diacont:

We respectfully submit our written response to both the deficiencies identified by the inspection team in its review of our audit engagements, as well as the deficiencies identified by the inspection team of the KBL, LLP's ("KBL") quality control system.

We support the Board's inspection process and believe the Board's comments and observations enhance the ability to achieve our shared objective of improving audit quality. We have taken this opportunity to make improvements to our audit quality, including changes to methodologies applied in particular engagements, continuing education courses geared towards industries impacting our audit clients, and the engagement of an outside consultant to perform additional concurring review services that include recommendations on areas of improvement.

We believe that since the inspection of September of 2008, KBL has consistently worked to improve its audit quality, however, we will continue to improve further and integrate not only the suggestions from our concurring reviewers but also any improvements that are the result of the continuing education courses we take.

Response to Part 1A

In the inspection report of September of 2008, the Board's inspection team identified three deficiencies of such significance that it appeared the Firm did not obtain sufficient evidential matter to support its opinion on the Issuer's financial statements. Two of these deficiencies related to the audit engagement of Issuer A and the third deficiency related to the audit engagement of Issuer B.

Issuer A – audit deficiencies included the failure to identify, or to address appropriately, a departure from GAAP that related to potentially material misstatements in the audited financial statements; one for the Issuer's failure to properly record a loss applicable to a minority interest, and the other for the Issuer's failure to record stock-based expense.

In both of these instances, the Issuer, subsequent to the original issuance of the audited financial statements, but prior to the inspection, had restated those engagements to correct the errors.

In the instance of the stock-based expense, the engagement partner at the time of the original audit, in the audit planning, and, again, during the field work testing of equity, had performed various inquiry procedures with the CEO of the company regarding the issuance of stock options during the period under audit. All responses by the CEO of the company resulted in no options being issued for that particular period. The options related to a subsidiary (majority-owned) of the company, and it was not until a "stand alone" audit of the majority owned subsidiary took place, under a separate agreement, that the engagement partner uncovered the fact that options had in fact been issued. The engagement partner immediately notified the company's board of directors, legal counsel, and senior management that the previously issued financial statements of the parent contained errors and that it was imperative to immediately file a Form 8-K under Item 4.02 for non-reliance of financial information and, also, that a restatement was necessary. All actions were performed in a timely fashion.

The Firm believes it acted promptly and appropriately upon the discovery of the omitted items; however, the Firm does take ultimate responsibility and has expanded their audit procedures to include a more detailed management representation letter and made an expansion of its inquiries to include outside legal counsel to confirm management's representations.

The deficiency relating to the minority interest was also restated and corrected. The Firm and the engagement partner have reviewed the applicable areas regarding accounting for non-controlling interests, including ASC 810-10-45, to enhance audit quality specific to this area.

Both of these deficiencies related to the same Issuer have been communicated to the Issuer and the restatements have not resulted in a change to the audit opinion. The opinion was an unqualified opinion that contained an uncertainty relating to a going concern.

One additional item that is of note relating to this Issuer is that in December of 2009 the CEO of the Company suddenly passed away. KBL has not performed any work for this Issuer and they have made no recent periodic filings with the Securities and Exchange Commission.

Issuer B – audit deficiencies included the failure to identify, or to address appropriately, a departure from GAAP that related to potentially material misstatements in the audited financial statements concerning the Issuer's failure to record a loss contingency.

The Issuer was involved in litigation related to the release of unrestricted, freely-tradable, non-legend shares of stock. In connection with the transaction, the Issuer did not recognize a loss contingency. KBL confirmed with outside counsel responsible for this matter, and the response did not indicate the probability of a loss nor estimate any amount for a potential loss.

Several weeks subsequent to the issuance of the audited financial statements and Form 10-K, outside legal counsel of the Issuer advised the Issuer that a loss contingency was required involving this transaction. Counsel advised KBL of this fact. Upon discovery of this new information, KBL immediately notified the board of directors of the Issuer and promptly had the audited financial statements restated to adjust for the loss contingency. A Form 8-K under Item 4.02 for non-reliance of financial information was also filed. All actions were performed in a timely fashion.

We believe the restatement was a direct result of the failure of the issuer's outside legal counsel to adequately communicate the loss contingency in the initial reply of our legal confirmation. The restatement did not result in a change to the audit opinion. The audit opinion was an unqualified opinion that contained an uncertainty with respect to a going concern.

The Firm believes it followed appropriate auditing standards prior and subsequent to the restatement, and acted promptly and appropriately upon the discovery of the additional information obtained from outside legal counsel subsequent to the initial financial statements being issued.

Redacted - Comments on Non-public Aspects of Report

The Firm works very diligently in improving their audit quality and looks to find ways to improve their system daily. The Firm has a commitment to the profession, to the Board, and to its Issuer clients, to ensure that due care and professionalism is provided on each and every engagement at all times. We will continue to make improvements and continue to monitor our progress.

We appreciate this opportunity to respond to the Board's comments, and if you have any questions or need further clarification, please do not hesitate to contact us at any time.

Sincerely,

Michael Pollack CPA
Partner
KBL, LLP