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Report on

2011 Inspection of KBL, LLP
(Headquartered in New York, New York)

Issued by the

Public Company Accounting Oversight Board

August 2, 2012

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. 104-2012-213

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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.

PCAOB Release No. 104-2012-213

Public Company Accounting Oversight Board

2011 INSPECTION OF KBL, LLP

In 2011, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") 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 July 18, 2011 to July 21, 2011. 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	2 (Newark, New Jersey and New York, New York)
Ownership structure	Limited liability partnership
Number of partners	4
Number of professional staff[3/]	3
Number of issuer audit clients[4/]	29

[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 and internal control over financial reporting ("ICFR") 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 or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

In addition, inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.[7/] Depending upon the circumstances, compliance with these standards may

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[5/] This focus on weaknesses and deficiencies 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/] See 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* (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T), and PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over* require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of four 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. The deficiencies included failures by the Firm to perform, or to perform sufficiently, certain necessary audit procedures.

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 and 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.

Financial Reporting That is Integrated with An Audit of Financial Statements ("AS No. 5"), ¶ 98.

The deficiencies identified in two of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient competent evidential matter to support its opinion on the issuer's financial statements. Those deficiencies were –

(1) the failure to perform sufficient procedures to evaluate whether there was substantial doubt about an issuer's ability to continue as a going concern and the corresponding failure to evaluate related disclosures;

(2) the failure to perform sufficient procedures to evaluate the adequacy of the issuer's disclosure of related party transactions; and

(3) the failure to perform sufficient procedures to test revenue.

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. 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

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.[8/]

[8/] 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.

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CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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May 31, 2012

Ms. Helen Munter
Director of Division of Registration and Inspection
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

Dear Ms. Munter,

KBL, LLP ("KBL") is pleased to submit its response to the Public Company Accounting Oversight Board's (the "Board") to the draft Report on 2011 Inspection of KBL. 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 have thoroughly considered the Board's comments and concerns addressed in the Draft Report and we have evaluated the matters identified by the Board's inspection team for each of the Issuer audits and have taken appropriate actions. We will assess the results of the corrective actions that we have taken subsequent to the inspection and consider whether additional actions are necessary.

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,

Richard Levychin

Richard Levychin, CPA
Partner

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May 31, 2012

Ms. Helen Munter
Director of Division of Registration and Inspection
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

Re: Response to draft Report on 2011 Inspection of KBL, LLP

Dear Ms. Munter,

We respectfully submit our written response to the draft Report on 2011 Inspection of KBL, LLP.

Responses to Be Included in the Public Portion of the Final Report

Issuer A

Going Concern

We believe that in our execution of the audit we performed the necessary audit procedures required by AU 341, *the Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.* AU 341 provides the following examples of procedures to identify issues related to going concern:

- Analytical procedures
- Review of subsequent events
- Review of compliance with the terms of debt and loan agreements
- Reading of minutes of meetings of stockholders, board of directors, and important committees of the board
- Inquiry of an entity's legal counsel about litigation, claims, and assessments
- Confirmation with related and third parties of the details of arrangements to provide or maintain financial support

As part of our audit procedures for the overall engagement we performed all the above procedures.

In performing our analysis of the applicability of the issuer continuing as a going concern we identified and documented in our work paper memo that discussed going concern the following financial highlights from our analytical procedures:

- Net loss decreased from $6,503,644 in 2008 to $533,171 in 2009.
- Operating loss decreased from $1,083,518 to $67,994.
- Operating expenses decreased $493,870 from $3,184,560 in 2008 to $2,600,690 in 2009.
- Accounts payable decreased $224,525 from $490,845 in 2008 to $266,320 in 2009.
- Accrued expenses decreased $1,066,863 from $2,197,641 in 2008 to $1,130,778 in 2009.

In our reading of the minutes and as part of our inquiry procedures we identified that during the year the issuer appointed a new CFO who had significant expertise in turning around companies. This resulted in the above improved results for the issuer. As part of our review of subsequent events we identified that the issuer was in negotiations for a $5 million contract with a Boston based advertising firm. At the time management was considering going private because they did not see an incentive to remain a public company. This would result in a significant reduction in SEC related professional fees which would further reduce operating expenses.

The issuer provided cash flow projections which showed that the issuer had positive future cash flow and would reflect cash balances in excess of $900,000 at the end of the 2010 year. This would be more than enough to settle the above $266,320 of accounts payable shown at the end of the 2009 year. Accordingly, we disagree with PCAOB's contention that the projections did not reflect settlement of the issuer's liabilities and accounts receivable as of the end of the year under audit (2009).

Based upon the above findings which included analytical review procedures which presented significantly improved financial results of the issuer from 2008 to 2009, a review of the issuer's budgets and projections, discussions with management relative to their future plans, and other procedures performed, KBL was of the opinion that we should not issue a going concern opinion. In addition, we feel that our audit work went beyond making inquiries of the issuer, as was stated in the PCAOB's report.

While the PCAOB has the benefit of hindsight we as auditors cannot predict future events or conditions that may cause an entity to be a going concern. However, in closing we would like to note that the issuer was in business at the end of 2010.

Related Party Transactions

We believe that in our planning and execution of the audit, we performed the necessary procedures required by AU 334, related parties transactions.

The inspection report makes reference to an individual that controls 65% of the voting power of the issuer whose last name was listed as a customer in the sales journal. The name in question was not an unusual name and just happened to be the name for a 65% shareholder and a part of the name of a customer of the issuer. The shareholder did not have an equity interest nor was he in any way related to this customer. We presented the PCAOB inspection team with a copy of an invoice from the customer along with information that provided access to the customer's website along with other substantive proof which indicated there was no related party relationship between the shareholder and the customer, and that the fact that they shared the same name was purely coincidental.

We feel that the inspection team's comments related to our procedures related to the testing of related party transactions came from this specific transaction. We can understand the report making an issue of the firm not disclosing a related party transaction that was clearly such. What we don't understand is the report making an issue of a transaction that ultimately was not a related party transaction and any reference as such was purely coincidental.

Issuer B

Revenue

We believe that we provided evidence to the PCAOB reviewer that we did review the terms of the agreements with the issuer's key distributors, but we were unable to produce the documentation of that review for one but not all of the distributors in question.

We reviewed the underlying contracts to ensure proper recognition of revenue, but that fact was not clearly documented in the work papers for all relevant contracts. We maintain that the agreements the issuer had with its customers were not a classic multi-element software agreement.

- The issuer sold software licenses separately from maintenance contracts, both as runtime and fully modifiable versions.

- Support of the software is generally performed by the VARs (Value Added Resellers) and not by the issuer and frequently the software license was sold without maintenance.

Accordingly, we had concurred with management that the license for the software and its related maintenance contracts were separable components and not allocations of relative value, even if included on the same invoice.

While the maintenance was not sold without a license, licenses were routinely sold without maintenance contracts. The maintenance contracts were for a limited duration and were often, but not always, renewed by the licensee.

The pricing of both the licenses and the maintenance contracts was governed by the issuers price list, maintenance was not offered for free or at a discount different than the licenses and the software was available for purchase without a maintenance contract at the same price as if the licensee had paid the additional fee for the maintenance contract.

We feel that the evidence presented and audit procedures performed support the proper recording of revenue by the issuer in accordance with ASC 985-605, *Software Revenue Recognition*.

Redacted - Comments on Non-public Aspects of Report

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.

We appreciate this opportunity to respond to the Report on 2011 Inspection of KBL, LLP. We look forward to further discussion on this matter.

Sincerely,

Richard Levychin

Richard Levychin, CPA