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BALTIA AIR LINES INC
Form 10-Q
August 20, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

BALTIA AIR LINES, INC.
(Exact name of registrant as specified in its charter)

STATE of NEW YORK 11-2989648
(State of Incorporation) (IRS Employer Identification No.)

63-25 SAUNDERS STREET, SUITE 7I, REGO PARK, NY 11374
(Address of principal executive offices)

Registrant's telephone number, including area code: (718) 275 5205

Check whether the issuer (1) filed all reports required to be filed by Section 13, or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
(Check one):

☐ Large accelerated filer
☐ Accelerated filer
☐ Non-accelerated filer (do not check if smaller reporting company)
☒ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares of the registrant's common stock outstanding as of August 19, 2010: 882,252,084 shares of Common Stock

PART ONE - FINANCIAL INFORMATION

Item 1. Financial Statements.

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BALTIA AIR LINES, INC. BALANCE SHEETS (A Development Stage Company)

ASSETS

	6/30/2010 (Unaudited)	12/31/2009
Current Assets		
Cash	\$ 513,478	\$ 1,439,897
Prepaid Expenses	31,617	0
Total Current Assets	545,095	1,439,897
Property and Equipment		
Equipment	755,344	745,161
Less Accumulated Depreciation	(89,358)	(85,858)
Net Property and Equipment	665,986	659,303
Other Assets		
Security Deposit Airplane Engines	240,000	0
 TOTAL ASSETS	 \$ 1,451,080	 \$ 2,099,200

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities		
Accounts Payable	\$ 100,000	\$ 100,000
Current portion of long-term debt	0	0
Total current liabilities	100,000	100,000
Long-term debt	0	0
Equity		
Preferred Stock	665	665
Common Stock	88,245	74,358
Paid-in-Capital	42,273,674	32,102,590
Deficit Accumulated During Development Stage	(41,011,504)	(30,178,413)
Total Equity	1,351,080	1,999,200
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 1,451,080	\$ 2,099,200

See notes to unaudited interim financial statements.

STATEMENT OF OPERATIONS (A Development Stage Company)

Three Months Ended June 30, 2010 (Unaudited)	June 30, 2009 (Unaudited)	Six Months Ended June 30, 2010 (Unaudited)	June 30, 2009 (Unaudited)	August 24, 1989 (Inception) to June 30, 2010 (Unaudited)
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Revenues	\$	0	0	0	0	0
Costs & Expenses						
General and						
Administrative	3,632,954	1,086,016	10,408,232	2,826,536	37,172,386	
FAA Certification	30,609	176,550	420,709	353,088	1,649,587	
Training Expense	0	0	0	0	225,637	
Depreciation	0	0	3,500	2,000	336,179	
Other	0	0	0	0	568,245	
Interest	(45)	(200)	(45)	(650)	1,050,176	
Total expenses	3,663,518	1,262,366	10,832,396	3,180,974	41,002,210	
Loss before						
income taxes	(3,663,518)	(1,262,366)	(10,832,396)	(3,180,974)	(41,002,210)	
Income Taxes	(405)	0	695	1,030	9,294	
Deficit						
Accumulated						
During						
Development						
Stage:	(3,663,113)	(1,262,366)	(10,833,091)	(3,182,004)	(41,011,504)	
Per share amounts:						
Loss	Nil	Nil	(0.01)	Nil		
Weighted Average						
Shares						
Outstanding	852,727,022	431,929,961	825,154,041	401,120,004		

See notes to unaudited interim financial statements.

STATEMENT OF CASH FLOWS (A Development Stage Company)

	Six Months Ended June 30, 2010	2009	Aug 24,1989 (inception) to June 30, 2010
	(Unaudited)	(Unaudited)	(Unaudited)
Cash flows from Operating Activities:			
Deficit Accumulated During			
Development Stage	\$ (10,833,091)	\$ (3,182,004)	\$ (41,011,505)
Adjustments to reconcile net			
loss to net cash provided by			
operations:			
Depreciation	3,500	2,000	335,030
Expenses paid by issuance of			
common stock	8,551,650	1,875,555	25,566,066
(Increase) decrease in prepaid			
expenses	(31,617)	0	368,684
Change in payables & accrued expenses	0	0	3,251,481
Cash used by operating activities:	(2,309,558)	(1,304,449)	(11,490,244)
Cash flows from investing activities:			
Purchase of Equipment	(10,183)	(37,679)	(938,402)
Security Deposits	(240,000)	0	(240,000)

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Cash used in investing activities:	(250,183)	(37,679)	(1,178,402)
Cash flows from financing activities:			
Issuance of Common Stock	1,633,321	723,300	12,737,604
Issuance of Preferred Stock	0	0	2,753
Loans from related parties	0	0	1,351,573
Repayment of related party loans	0	0	(368,890)
Principal payments on long-term debt	0	0	(40,817)
Acquisition of Treasury Stock	0	0	(500,100)
Cash generated by financing:	1,633,321	723,300	13,182,123
Change in cash	(926,420)	(618,828)	513,477
Cash-beginning of period	1,439,897	724,240	0
Cash -end of period	\$ 513,477	\$ 105,412	\$ 513,477

See notes to unaudited interim financial statements.

Baltia Air Lines, Inc.
 Unaudited Statement of Shareholders' Equity
 (A Development Stage Company)

	Preferred		Common		
	Shares	Par Value	Shares	Common Stock Amount	Additional Paid-In Capital
Balance at December 31, 2009	66,500	665	743,580,039	74,358	32,102,591
Shares issued for cash			31,987,339	3,199	1,630,022
Shares issued for services			106,884,706	10,688	8,540,961
Net Loss					
Balance at June 30, 2010	66,500	665	882,452,084	88,245	42,273,574

See notes to unaudited interim financial statements.

NOTES TO FINANCIAL STATEMENTS

BALTIA AIR LINES, INC.
 (A DEVELOPMENT STAGE COMPANY)
 NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS
 JUNE 30, 2010

1. Basis of Presentation

The Financial Statements presented herein have been prepared by us in accordance with the accounting policies described in our December 31, 2009 Annual Report on Form 10-K and should be read in conjunction with the notes to financial statements which appear in that report. The preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on going basis, we evaluate our estimates, including those related to intangible assets, income taxes, insurance

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obligations and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates under different assumptions or conditions. In the opinion of management, the information furnished in this Form 10-Q reflects all adjustments necessary for a fair statement of the financial position and results of operations and cash flows as of and for the six-month periods ended June 30, 2010 and 2009. All such adjustments are of a normal recurring nature. The Financial Statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include some information and notes necessary to conform to annual reporting requirements.

The financial statements have been presented in a "development stage" format. Since inception, our primary activities have been raising of capital, obtaining financing and obtaining route authority and approval from the U.S. Department of Transportation. We have not commenced our principal revenue producing activities.

2. Earnings/Loss Per Share

Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. Diluted earnings per share assumes that any dilutive convertible securities outstanding were converted, with related preferred stock dividend requirements and outstanding common shares adjusted accordingly. It also assumes that outstanding common shares were increased by shares issuable upon exercise of those stock options for which market price exceeds the exercise price, less shares which could have been purchased by us with the related proceeds. In periods of losses, diluted loss per share is computed on the same basis as basic loss per share as the inclusion of any other potential shares outstanding would be anti-dilutive. Due to the net losses reported, dilutive common equivalent shares were excluded from the computation of diluted loss per share, as inclusion would be anti-dilutive for the periods presented.

3. Stockholders' Equity

Stock Issued for Services

During the six months ended June 30, 2010 we issued 106,885,000 shares of our common stock in exchange for services. The shares were valued at \$8,550,000 or about \$0.08 per share and reflected the share market value at the time of issuance. The shares are not registered and are subject to restrictions as to transferability

During the six months ended June 30, 2009 we issued 37,395,000 shares of our common stock in exchange for services. The shares were valued at \$1,270,000 or about \$0.034 per share and reflected the share market value at the time of issuance. The shares are not registered and are subject to restrictions as to transferability.

Stock Issued for Cash

During the six months ended June 30, 2010 we issued 31.9 million shares of our common stock in exchange for cash. The shares sold for cash were subscribed at \$ 1,633,000 or about \$0.05 weighted average per share. In 2009, we issued 16,385,000 shares of our common stock in exchange for cash. The shares were subscribed at \$ 723,000 or about \$0.05 weighted average per share. We also issued 48,000,000 in exchange for the exercise of

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options by Igor Dmitrowsky (our President), The shares were issued pursuant to our private placement offering, are not registered and are subject to restrictions as to transferability

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion includes certain forward-looking statements within the meaning of the safe harbor protections of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements that include words such as "believe," "expect," "should," "intend," "may," "anticipate," "likely," "contingent," "could," "may," or other future-oriented statements, are forward-looking statements. Such forward-looking statements include, but are not limited to, statements regarding our business plans, strategies and objectives, and, in particular, statements referring to our expectations regarding our ability to continue as a going concern, generate increased market awareness of, and demand for, our service, realize profitability and positive cash flow, and timely obtain required financing. These forward-looking statements involve risks and uncertainties that could cause actual results to differ from anticipated results. The forward-looking statements are based on our current expectations and what we believe are reasonable assumptions given our knowledge of the markets; however, our actual performance, results and achievements could differ materially from those expressed in, or implied by, these forward-looking statements.

Our fiscal year ends on December 31. References to a fiscal year refer to the calendar year in which such fiscal year ends.

OVERVIEW

Baltia Air Lines, Inc. (the "Company" or "Baltia" or "Baltia Air Lines") is the only Part 121 (heavy jet operator) start-up airline in the United States today that has received Government fitness approval. Baltia is currently conducting the FAA Air Carrier Certification. Baltia Air Lines, Inc. is a New York State corporation.

On December 19, 2008, the U.S. Department of Transportation (DOT) issued its Order to Show Cause, finding that Baltia Air Lines is fit, willing and able to engage in international air transport of persons, property and mail. Baltia was awarded the non-stop route from JFK to St. Petersburg Russia. Baltia was also authorized for worldwide charter services. Baltia had filed its application with the DOT in October 2007.

On March 7, 2009, following the regulatory public comment period and the Presidential Review, the DOT issued the Final Order, making its findings of the Show Cause Order final.

On March 20, 2009, the DOT awarded Baltia Air Lines its initial frequencies for flights from JFK to St. Petersburg

On March 25, 2009, the United States Government formally notified the Government of the Russian Federation that Baltia Air Lines has been designated for service on the JFK St. Petersburg route.

In July 2009, IATA issued the two-letter Code.

In July 2009, the FAA arranged for arrival and departure times at JFK Airport.

On August 18, 2009, the Pulkovo Airport Authority affirmed arrival and departure times at Pulkovo Airport.

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On August 18, 2009, the Company executed the Aircraft Purchase Agreement for the purchase of its first Boeing 747 aircraft.

On November 15, 2009, the company paid the remaining balance and it now owns the aircraft. The aircraft was purchased without engines. In conjunction with the purchase, the seller is leasing to the company engines on a power by the hour basis. Baltia has taken delivery of the aircraft and registered the ownership title with the FAA in Oklahoma City.

In the first quarter of 2010, the Company entered into engine leasing agreement with Logistic Air, Inc. The engines have been delivered and installed.

Baltia currently carries \$500,000,000 aircraft liability insurance.

In the first quarter of 2010, Baltia entered into a line maintenance agreement with Evergreen at JFK.

In the first quarter of 2010, Baltia leased its station facilities from Pulkovo Airport, entered into a fuelling agreement with SOVEX (the exclusive fueling company at Pulkovo Airport), entered into agreement with Pulkovo Caro facility and customs for cargo processing, and entered into a ground servicing agreement with Pulkovo Airport.

In April of 2010, we received additional space at JFK, Terminal 4.

On June 4, Baltia filed its application with the DOT for JFK-SVO service.

On August 2, Baltia's B747 aircraft arrived at Malaysian Airlines maintenance facility for maintenance.

Baltia is currently conducting the FAA Air Carrier Certification process under Part 121.

Upon completion of the Air Carrier Certification, Baltia intends to commence scheduled non-stop service from its Base of Operations at Terminal 4, JFK Int'l Airport in New York to Pulkovo II Int'l Airport of St. Petersburg and, if approved, non-stop service from JFK to Sheremetevo Int'l Airport of Moscow.

Baltia Air Lines, Inc. was organized in the State of New York on August 24, 1989.

Following the commencement of service on the JFK-St. Petersburg route, Baltia's objective is to develop its route network to Russia, Latvia, Ukraine, and Belarus.

Baltia Air Line's operations are based at Terminal 4, JFK. We have made key operating arrangements at JFK and other service arrangements are in the process of being made. Baltia's personnel meet regulatory requirements and have recent certification experience.

Baltia intends to provide full service, i.e. passenger, cargo and mail, and will not be dependent upon one or a few major customers. Baltia has two registered trademarks "BALTIA" and "VOYAGER CLASS" and five trademarks are subject to registration.

There is currently no non-stop service from JFK to St. Petersburg. Connecting service is provided mainly by foreign carriers. Finnair, Lufthansa and SAS are the leading competitors in the US-Russia market. KLM, British Airways, Air France, Austrian Airlines, and Swissair also provide service. However, foreign carriers are required to have intermediate stops

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at transit airports in their respective countries (Helsinki, Frankfurt, Stockholm, Copenhagen, etc.) because they are "third nation" airlines and as such cannot fly directly between the US and Russia (only a US airline as well as a reciprocating Russian airline is eligible to fly nonstop). Delta and Aeroflot currently operate between JFK and Moscow. With the exception of the JFK-Moscow route, there exists no non-stop competitive air transportation service on the routes for which Baltia can apply between New York and Russia.

Baltia's objective is to establish itself as the leading non-stop carrier in the market niche over the North Atlantic with operations that are profitable and growing over time. In order to accomplish this objective, we intend to establish and maintain high quality service standards which we believe will be competitive with the European airlines currently providing connecting flights. Baltia does not expect to be in direct competition with deep discount airlines, including several East European airlines and the offspring of the former Soviet airline Aeroflot, which provide connecting flights.

Baltia intends to provide First, Business, and Voyager Class accommodations.

Baltia's passenger market strategy is tailored to particular preferences of the various segments of its customer base, with marketing attention particularly focused on American business travelers with interests in Russia who require high quality, non-stop service from the US to Russia.

Baltia's initial marketing strategy is based on existing agencies specializing in the market, selected travel and business publications, supplemented by direct mailings to corporate travel planners, and individual American businesses that are currently involved in Russia. Soon after the inauguration of flight service, Baltia plans to implement its frequent flyer program. As the marketing matures, Baltia plans to advertise to the general public throughout the US, and in Russia. Baltia also plans to sponsor selected industry and trade events in the US and in St. Petersburg.

Baltia intends to provide customer service and reservations centers in New York and in St. Petersburg, to list Baltia's schedules and tariffs in the Official Airline Guide, and provide world-wide access to reservations on Baltia's flights through a major Computer Reservations and Ticketing System ("CRS").

The Company intends to activate its reservations service when the DOT issues its order authorizing Baltia to sell tickets (expected to be approximately 30 to 45 days before the inaugural flight).

Baltia has identified the following market segments in the U.S.-Russia market: (i) Business Travelers, (ii) General Tourism, (iii) Ethnic Travelers, (iv) Special Interest Groups, (v) Professional Exchanges, and (vi) Government and Diplomatic Travel.

Baltia believes that the direct non-stop service to be offered by it will be superior to the stop-over service currently offered by foreign airlines. A comparison between the two services with respect to passenger convenience and cargo transport efficiency is set forth below.

BALTIA - US flag, non-stop service:

With non-stop service, a passenger can fly from JFK to St. Petersburg in about 8 hours in a Boeing B747 wide body airplane. Cargo arrives containerized, palletized, and secure.

Foreign, stop-over journeys:

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With stop-over service, it would take a passenger 10 to 18 hours to fly through Helsinki, Copenhagen, Moscow, or Frankfurt on a foreign carrier. In addition, passengers must change to narrow-body aircraft at a layover airport. Cargo is "broken up" and manually loaded onto narrow-body aircraft, or trucked from Helsinki.

Baltia plans to operate efficiently and provide consistent high quality service to passengers and cargo shippers alike in order to establish the Company as the preferred airline in the market in comparison to its competitors. The Company also plans to use targeted marketing of its service to maintain and grow its market share.

Because of the increased reliability and comfort of a non-stop flight, Baltia expects to capture a portion of the existing traffic. Further, US government traffic is required by law (Fly America Act) to fly on a US Flag carrier when service is available.

With the Boeing 747 true wide-body aircraft, Baltia intends to provide cargo service from JFK to St. Petersburg and Moscow, offering containers, pallets, and block space arrangements. Baltia expects to carry contract cargo for express shippers. Baltia also plans to market its own "Baltia Courier", "Baltia Express", and "Baltia Priority" express service for letters and packages. Baltia also expects revenues from diplomatic mail and cargo, under the Fly America Act.

Baltia has passenger service and ground service arrangements at JFK and at Pulkovo II Airport in St. Petersburg, and is preparing similar arrangements in Moscow. As a US carrier flying into a foreign country, Baltia will be eligible to the same degree of priority that a foreign carrier receives when arriving in the US.

Baltia intends to start the JFK-St. Petersburg service and JFK-Moscow service with one round-trip flight per week, then increase the frequency to three round trips, and then to five round trips.

By starting with one roundtrip flight per week for the first four weeks, Baltia not only accelerates and simplifies its FAA Certification, but expects to save itself the additional time it would incur to make needed improvements and corrections. Starting with a light schedule, any inefficiencies of a given flight may be corrected for the next flight. Baltia management believes that in the initial four weeks, the Company will attain high operating efficiencies and service standards. These standards may be further refined during the following months when Baltia plans to increase service to three round-trips per week. Following that, Baltia plans to increase service to five round trips per week, and then subsequently to daily round trip flights as additional aircraft are brought into service. The transitional schedule allows Baltia to train additional pilots, flight attendants, and support staff with a continuous training program. It also allows the Baltia marketing program to take effect through its various segments.

During the past two years, Baltia has been preparing standards for service. The care taken in establishing high standards has implications beyond the launching of the JFK-St. Petersburg flight. Baltia plans to build operating modules and apply that know-how to develop new markets. Once established, Baltia plans to duplicate its JFK-St. Petersburg and JFK-Moscow standards on flights on other transatlantic routes. By the end of year one, Baltia plans to introduce three additional aircraft.

Additional revenues from charter flying.

In conjunction with its Part 121 air carrier certification ("Part 121"),

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(referring to a Federal Aviation Regulations' number, is an industry acronym used to describe a US airline operating heavy jet aircraft) for scheduled service, Baltia will have certification for world wide charter service. Baltia plans to utilize aircraft time available between scheduled service, to earn additional revenues from charters. We are also considering qualifying our aircraft for military contracts.

In order to start revenue flight operations, the Company has to complete FAA Air Carrier Certification. During the past two years the Company has been preparing for air carrier certification. The Company's staff has prior experience with the certification and is familiar with the latest System Safety & Certification Process procedures (CPD 8.0), and the Air Transportation Oversight System (ATOS) requirements. Certification is scheduled for completion by year's end 2010.

The Company will carry airline liability insurance as required for a US airline by DOT regulation.

As of June 30, 2010, Baltia had nineteen full-time employees and fifteen part-time employees. Baltia's staff includes professionals who have extensive major US airline experience in aircraft maintenance, airline operations, airline regulatory compliance, reservation, info technology, passenger service, and administration.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of our financial statements requires us to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Our estimates, judgments and assumptions are continually re-evaluated based upon available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. Areas in which significant judgment and estimates are used include, but are not limited to valuation of long-lived assets and deferred income taxes.

Valuation of Long-Lived Assets: We review the recoverability of our long-lived assets, including buildings, equipment and intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Our primary measure of fair value is based on discounted cash flows. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

We amortize the costs of other intangibles (excluding goodwill) over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or appraised values. Intangible assets with indefinite lives are tested for impairment, at least annually, and written down to fair value as required.

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Stock-Based Compensation Plans: Stock-based awards to non-employees are accounted for using the fair value method in accordance with SFAS No. 123(R), Accounting for Stock-Based Compensation, and EITF Issue No. 96-18, Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services.

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") 123R, "Share-Based Payment" ("SFAS 123(R)"), which requires that companies measure and recognize compensation expense at an amount equal to the fair value of share-based payments granted under compensation arrangements. Prior to January 1, 2006, we accounted for our stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations, and would typically recognize no compensation expense for stock option grants if options granted had an exercise price equal to the market value of the underlying common stock on the date of grant.

The Company adopted SFAS 123(R) using the "modified prospective" method, which results in no restatement of prior period amounts. Under this method, the provisions of SFAS 123(R) apply to all awards granted or modified after the date of adoption. In addition, compensation expense must be recognized for any unvested stock option awards outstanding as of the date of adoption on a straight-line basis over the remaining vesting period. The Company calculates the fair value of options using a Black-Scholes option pricing model. For the six months ended June 30, 2010 and 2009, the Company's recognized (2005 on a pro forma basis) no compensation expense related to stock option grants.

SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation expense to be reported in the Statement of Cash Flows as a financing cash inflow rather than an operating cash inflow. In addition, SFAS 123(R) required a modification to the Company's calculation of the dilutive effect of stock option awards on earnings per share. For companies that adopt SFAS 123(R) using the "modified prospective" method, disclosure of pro forma information for periods prior to adoption must continue to be made.

As of June 30, 2010, there was no unrecognized compensation cost related to non-vested options granted under the plan. The total fair value of shares vested during the six-month period ended June 30, 2010 was \$0 (also none during the six-month period ended June 30, 2009).

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which replaces APB Opinion No. 20 "Accounting Changes," and FASB Statement No. 3 "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. We do not believe that adoption of SFAS 154 will have a material impact on our financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108"). SAB 108 establishes an approach that requires quantification of financial statement

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misstatements based on the effects of the misstatements on each of the Company's consolidated financial statements and the related financial statement disclosures. SAB 108 is effective for the year ending December 31, 2006. We are currently evaluating the effect that the adoption of SAB 108 will have on our results of operations and financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 ("FIN 48"), which clarifies the accounting for uncertain tax positions. This Interpretation allows the tax effects from an uncertain tax position to be recognized in the Company's financial statements if the position is more likely than not to be sustained upon audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not expect the adoption of FIN 48 to have a material impact on our financial statements.

RESULTS OF OPERATIONS

We had no revenues during the six months ended June 30, 2010 and 2009 because we do not fly any aircraft and cannot sell tickets.

Our general and administrative expenses increased \$2,546,938 to \$3,632,954 in the three months ended June 30, 2010 as compared to \$1,086,016 in the three months ended June 30, 2009. This increase is mainly the result of activity in preparing for air carrier certification and commencement of operations.

Primarily as a result of the foregoing, we incurred a net loss of \$3,663,518 in the three months ended June 30, 2010 as compared to a net loss of \$1,262,366 in the three months ended June 30, 2009.

Our future ability to achieve profitability in any given future fiscal period remains highly contingent upon our commencing flight operations. The management believes that the company will obtain FAA certification and that it has the necessary funding to commence revenue flight operations. If commenced, there can be no assurance that such operations would be profitable.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have incurred substantial operating and net losses, as well as negative operating cash flows. As of June 30, 2010, our working capital was \$445,095 and our stockholders' equity was \$1,351,080. By comparison, our working capital increased from \$90,412 at June 30, 2009 and our stockholders' equity increased from \$167,224 at June 30, 2009. We had unrestricted cash balance of \$513,478 at June 30, 2010, as compared to \$105,412 at June 30, 2009.

Our operating activities utilized \$2,309,558 in cash during the six months ended June 30, 2010, an increase of \$1,005,109 from the \$1,304,449 in cash utilized during the six months ended June 30, 2009.

Our financing activities, from issuance of common stock, provided \$1,633,321 and \$723,300 in cash during the six months ended June 30, 2010 and 2009, respectively.

As a result of the foregoing, our unrestricted cash increased by \$408,065 to \$513,478 at June 30, 2010, as compared to \$105,412 at June 30, 2009.

We had no significant planned capital expenditures, budgeted or otherwise, as of June 30, 2010.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

None

Item 4T. Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer, based on evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) required by paragraph (b) of Rule 13a-15 or Rule 15d-15, as of June 30, 2010, have concluded that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Our Chief Executive Officer and Chief Financial Officer also concluded that, as of June 30, 2010 our disclosure controls and procedures are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There was no change in our internal controls or in other factors that could affect these controls during the six months ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. While existing controls may be adequate at present, upon the commencement of flight revenue service we intend to implement controls appropriate for airline operations.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the six months ended June 30, 2010 we issued 106,885,000 shares of our common stock in exchange for services. The shares were valued at \$8,550,000 or about \$0.08 per share and reflected the share market value at the time of issuance. The shares are not registered and are subject to restrictions as to transferability. During the six months ended June 30, 2010 we issued 31.9 million shares of our common stock in exchange for cash. The shares sold for cash were subscribed at \$ 1,633,000 or about \$0.05 weighted average per share.

All of the above issuances were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of Baltia or executive officers of Baltia, and transfer was restricted by Baltia in accordance with the requirements of the Securities Act of 1933, as amended. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

Item 3. Default Upon Senior Securities.

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None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 Certification by Chief Executive Officer and Chief Financial Officer pursuant to Sarbanes-Oxley Section 302, provided herewith.

32.1 Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S. C. Section 1350, provided herewith.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned thereunto duly authorized.

DATED THIS 19th DAY OF AUGUST 2010

BALTIA AIR LINES, INC.

/s/ Igor Dmitrowsky

Igor Dmitrowsky

Chief Executive Officer and Chief Financial Officer(principal accounting officer)

EXHIBIT 31.1

BALTIA AIR LINES, INC.

OFFICER'S CERTIFICATE PURSUANT TO SECTION 302

I, Igor Dmitrowsky, the Chief Executive Officer and Chief Financial Officer of Baltia Air Lines, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Baltia Air Lines, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such

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disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 19, 2010

/s/ Igor Dmitrowsky

Igor Dmitrowsky

Chief Executive Officer and Chief Financial Officer (principal accounting officer)

EXHIBIT 32.1

BALTIA AIR LINES, INC.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report Baltia Air Lines, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Igor Dmitrowsky, Chief Executive Officer and Chief Financial Officer (principal accounting officer) of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Baltia Air Lines, Inc. and will be retained by Baltia Air Lines, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Date: August 19, 2010

/s/ Igor Dmitrowsky

Igor Dmitrowsky

Chief Executive Officer and Chief Financial Officer (principal accounting officer)