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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

8-20746

SEC FILE NUMBER
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Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

Washington, DC
121

REPORT FOR THE PERIOD BEGINNING 1/1/11 AND ENDING 12/31/11
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:

David Lerner Associates, Inc.

OFFICIAL USE
ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

477 Jericho Turnpike
(No. and Street)

Syosset New York 11791
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Alan P. Chodosh (516) 390-5525
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Grant Thornton LLP

(Name - if individual, state last, first, middle name)

60 Broad Street New York New York 10004
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

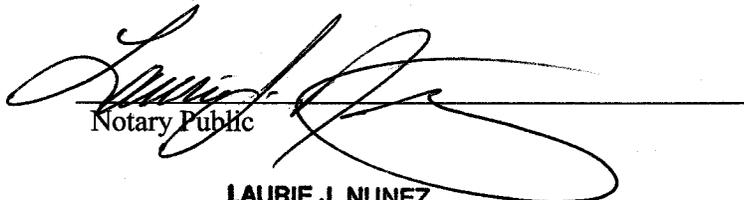
AFFIRMATION

I, Alan P. Chodosh, affirm that, to the best of my knowledge and belief, the accompanying financial statements and supplemental schedules pertaining to David Lerner Associates, Inc. at and for the year ended December 31, 2011, are true and correct. I further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.



Alan P. Chodosh
Executive Vice President & Chief Financial Officer

Subscribed to before me this
February 28, 2012



Notary Public

Laurie J. Nunez
Notary Public, State of New York
No. 30-4814770
Qualified in Nassau County
Commission Expires Sept. 30 2014

**Statement of Financial Condition and Report of
Independent Registered Certified Public Accountant
and Report on Internal Control**

**DAVID LERNER ASSOCIATES, INC.
(S.E.C. I.D. NO. 8-20746)**

December 31, 2011

**Filed in accordance with Rule 17a-5(e)(3)
under the Securities and Exchange Act of 1934
as a Public Document.**

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**Washington, DC
121**



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
David Lerner Associates, Inc.

We have audited the accompanying statement of financial condition of David Lerner Associates, Inc. (the "Company") as of December 31, 2011. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of David Lerner Associates, Inc. as of December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

New York, New York
February 28, 2012

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DAVID LERNER ASSOCIATES, INC.
Statement of Financial Condition
As of December 31, 2011

ASSETS

Cash and cash equivalents	\$ 19,392,482
Cash segregated under federal and other regulations	4,343,023
Cash deposited with clearing organizations	1,246,268
RECEIVABLES FROM	
Customers	11,961,776
Brokers and dealers	2,295,049
Related parties	301,888
Securities owned - at fair value	5,990,489
Furniture, equipment, and leasehold improvements at cost, less accumulated depreciation of \$5,892,747	2,461,123
Other assets	<u>1,923,678</u>
Total	<u>\$ 49,915,776</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

PAYABLES TO

Customers	\$ 2,701,854
Broker and dealers	110,045
Securities sold, not yet purchased - at fair value	5,129
Commissions payable	1,893,254
Accounts payable and accrued expenses	<u>13,971,310</u>
	18,681,592

STOCKHOLDERS' EQUITY

Common stock, voting, no par value; authorized, 200 shares; 10 shares outstanding	5,000
Common stock, nonvoting, no par value; authorized, 200 shares; 90 shares outstanding	-
Additional paid-in capital	952,370
Retained earnings	<u>30,276,814</u>
Total stockholders' equity	<u>31,234,184</u>
Total	<u>\$ 49,915,776</u>

The accompanying notes are an integral part of this financial statement.

DAVID LERNER ASSOCIATES, INC.
Notes to Statement of Financial Condition
December 31, 2011

1. INTRODUCTION, BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

David Lerner Associates, Inc. (the "Company") is a registered broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"), formerly known as the National Association of Securities Dealers, Inc. The Company, headquartered in Syosset, NY, primarily conducts business with retail customers at branch offices on the east coast of the United States of America. The Company's voting shares are wholly owned by an individual, David Lerner, and its' nonvoting shares are held by several individuals and a trust established by David Lerner.

The Company is an "S" Corporation under the Internal Revenue Code.

Cash and cash equivalents consist of cash and highly liquid investments not held for resale with maturities, when purchased, of three months or less.

The Company maintains cash deposits with three major financial institutions in excess of federal deposit insurance levels.

Cash segregated under federal and other regulations includes cash segregated in compliance with federal and other regulations.

Customers' securities transactions are recorded on a settlement-date basis with related commission income and expenses reported on a trade-date basis.

Securities owned and securities sold, not yet purchased ("financial instruments"), are recorded at fair value, and unrealized gains and losses are included in principal transactions revenue. The fair value of financial instruments is generally based on observable market prices.

Periodically, the Company will enter into TBA forward contracts and futures contracts to hedge its securities owned.

Depreciation is provided on a straight-line basis using an estimated useful life of five years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

Effective December 31, 2009, David Lerner sold to certain family members and several employees 55 shares and 8 shares, respectively, of the Company's nonvoting stock. The transfer price of the shares, \$485,000 per share, was based upon a third-party independent valuation. Each purchaser of the nonvoting shares has entered into a promissory note, personally with David Lerner that provides for quarterly payments on the notes for interest and principal to the extent of dividends, net of any taxes, received by the shareholders from the Company. The shareholder agreements provide in certain circumstances redemption of the shares, at the purchase price the employees paid for the shares adjusted for the change in the book value, at the Company's option. The agreements were amended in 2011 to permit the purchasers the option to tender the shares to David Lerner in return for the forgiveness of all obligations under the promissory notes, including any accrued interest. The fixed share transactions with the family members have been accounted for as an estate planning transaction and, accordingly, not accounted for as a share-based

DAVID LERNER ASSOCIATES, INC.
Notes to Statement of Financial Condition
December 31, 2011

payment under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718. The shares will continue to be accounted for as equity and not as a liability under ASC Topic 480 as the shares are not mandatorily redeemable. There were no new shares issued in 2011.

The fixed share transaction with the employees have been accounted for as a share based liability award under ASC Topic 718, as risk of ownership does not transfer to the employee even upon payment of the promissory notes due to the put feature. The Company has elected to measure compensation expense under the intrinsic value method and there was no compensation expense related to this transaction.

The Company adopted the provisions of the FASB ASC 740, "Income Taxes," on January 1, 2009. As required by the uncertain tax position guidance in ASC 740, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. At the adoption date and for the year ended December 31, 2011, the Company did not have any material uncertain tax positions for which the statute of limitations remained open. The company recognizes interest and penalties associated with income tax matters as components of income tax. No amount was accrued for as of December 31, 2011 related to interest and penalties. The initial application of this guidance to the Company's income taxes had no impact on the Financial Statements of the Company. The Company is no longer subject to federal and state examinations with respect to such returns for tax years before 2008.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, newly codified as ASC 810 Amendments to FASB Interpretation No. 46(R) ("SFAS No. 167"), which amends the consolidation guidance applicable to variable interest entities ("VIEs"). The amendments to the consolidation guidance affect all entities currently within the scope of FIN 46(R), as well as qualifying special-purpose entities ("QSPEs") that are currently excluded from the scope of FIN 46(R). ASC 810 replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a VIE with an approach focused on identifying which enterprise has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. The Company's adoption of this standard in 2010 and thereafter has not had a significant impact on the financial condition, results of operations and cash flows.

The Company adopted Accounting Standards Update ("ASU") No. 2010-06, "Improving Disclosures about Fair Value Measures" (and update to ASC 820-10, "Fair Value Measurements and Disclosures-Overall"), which became effective for interim and annual periods after December 15, 2009 and for certain disclosures after December 15, 2010. The guidance in this update provides amendments to ASC 820-10 for disclosures for fair value measurement of investments.

In May 2011, the FASB issued Accounting Standard Update ("ASU") No. 2011-04, which amends ASC Topic 820, *Fair Value Measurements and Disclosures*. This ASU clarifies among other things, the intent about the application of existing fair value requirements, including those related to highest and best use concepts, and also expands the disclosure requirements for fair value measurements categorized within Level 3 of the fair value hierarchy. This ASU clarifies that a reporting entity should disclose quantitative information about significant unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy. Additionally, this ASU expands the disclosures for fair value measurements categorized within Level 3 where a reporting entity will be required to include a description of the valuation processes used and the sensitivity of the fair value measurement to changes in unobservable

DAVID LERNER ASSOCIATES, INC.
Notes to Statement of Financial Condition
December 31, 2011

inputs and the interrelationships between those unobservable inputs, if any. Additional disclosure will also be required for any transfers between Level 1 and Level 2 of the fair value hierarchy of fair value measurements on a gross basis as well as additional disclosure of the level in the fair value hierarchy of assets and liabilities that are not recorded at fair value. For many of the requirements, the FASB does not intend for this ASU to result in a change in the application of the requirements in ASC Topic 820. The guidance in this ASU is to be applied prospectively and is effective during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The adoption of this ASU is not expected to have a material impact on our financial condition, results of operations or cash flows.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. RECEIVABLES FROM, AND PAYABLES TO, CUSTOMERS

Receivables from, and payables to, customers represent amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables. Such collateral is not reflected in the financial statements.

At December 31, 2011, the fair value of customer securities received as collateral where the Company was permitted to sell or repledge the securities was \$11,336,769, none of which was repledged.

3. RELATED PARTY TRANSACTIONS

The Company is owned by David Lerner (the "Stockholder"), several individuals and a trust. The Company and various other affiliates (controlled by the Stockholder) loan and borrow funds among the related parties. The Company entered into a lease extension agreement on December 5, 2001, with HSS Realty, LLC (an LLC owned by the Stockholder). The building and mortgage are in the name of the Stockholder. The lease terminates on December 31, 2012.

The Company also entered into a lease agreement with HSS Realty II, LLC (an LLC owned by the Stockholder). The lease terminates on December 31, 2012.

The Company also entered into a lease agreement on July 1, 2004, with DSD Realty, LLC (an LLC owned by the Stockholder). The building and mortgage are in the name of the Stockholder. The lease terminates on June 30, 2014.

At December 31, 2011, the receivables from related parties were as follows:

Spirit Management Company	\$ 296,851
SRLA Inc.	<u>5,037</u>
Total receivables from related parties	<u>\$ 301,888</u>

DAVID LERNER ASSOCIATES, INC.
Notes to Statement of Financial Condition
December 31, 2011

4. FAIR VALUE MEASUREMENTS

The Company adopted ASC Topic 820 (formerly FAS No. 157), "Fair Value Measurements," as of January 1, 2008, which, among other things, requires enhanced disclosures about investments that are measured and reported at fair value. ASC Topic 820 establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. The adoption of ASC Topic 820 had no impact on the financial condition or results of operation of the Company.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 - Quoted prices are available in active markets for identical securities as of the reporting date. The types of investments included in Level 1 include listed equities and listed derivatives. As required quoted prices for these investments are not adjusted, even in situations where a large position and a sale could reasonably impact the quoted price.
- Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Securities which are generally included in this category include corporate bonds, municipal securities which are consensus priced, less liquid and restricted equity securities and certain over-the-counter derivatives.
- Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. There were no transfers between levels.

DAVID LERNER ASSOCIATES, INC.
Notes to Statement of Financial Condition
December 31, 2011

The following table summarizes the valuation of securities owned and sold under the fair value hierarchy levels as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash and cash equivalents money market fund	<u>\$ 11,400,000</u>	<u>\$ -</u>	<u>\$ 11,400,000</u>
Securities owned, at fair value			
Mortgage-backed securities	\$ -	\$ 2,435,238	\$ 2,435,238
State and municipal obligations and other nonequities	-	2,573,506	2,573,506
Negotiable certificates of deposit	-	647,985	647,985
Equities	<u>333,760</u>	<u>-</u>	<u>333,760</u>
Total securities owned, at fair value	<u>\$ 333,760</u>	<u>\$ 5,656,729</u>	<u>\$ 5,990,489</u>
Securities sold, not yet purchased, at fair value			
Mortgage-backed securities	\$ -	\$ -	\$ -
State and municipal obligations and other nonequities	-	5,129	5,129
Equities	<u>-</u>	<u>-</u>	<u>-</u>
Total securities sold, not yet purchased, at fair value	<u>\$ -</u>	<u>\$ 5,129</u>	<u>\$ 5,129</u>

5. FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

At December 31, 2011, furniture, equipment, and leasehold improvements consist of the following:

Furniture and fixtures	\$ 4,016,354
Leasehold improvements	1,779,495
Data processing equipment	1,512,766
Telephone equipment	985,726
Automobiles	<u>59,529</u>
Total	8,353,870
Less accumulated depreciation and amortization	<u>(5,892,747)</u>
Furniture, equipment, and leasehold improvements - net	<u>\$ 2,461,123</u>

DAVID LERNER ASSOCIATES, INC.
Notes to Statement of Financial Condition
December 31, 2011

6. OTHER ASSETS

At December 31, 2011, other assets consist of the following:

Commissions receivable	\$ 273,379
Deferred compensation asset	336,245
Prepaid expense	739,124
Prepaid insurance	315,759
Taxes receivable	100,000
Other	<u>159,171</u>
Total other assets	<u>\$ 1,923,678</u>

7. SHORT-TERM BANK LOANS

Short-term bank loans bear interest at a rate set by the bank in light of money market conditions, availability of funds, and amount required. The loans are collateralized by securities owned by the Company up to the loan amount plus an additional percentage based on the type of security collateral and are payable upon demand. There were no bank loans outstanding at December 31, 2011.

8. EMPLOYEE BENEFITS

The Company sponsors a 401(k) plan (the "Plan") for the benefit of all full-time employees, after they have completed one year of service. The Company matches 25% of employee contributions up to \$1,500. Employees are fully vested in their own contributions. Company contributions vest 20% after two years of participation in the Plan and an additional 20% for each succeeding year, with full vesting after six years.

Beginning in 1987, qualified investment counselors became eligible to participate in a longevity bonus arrangement (the "Agreement"). A bonus of between 4% and 10% of annual compensation may be credited to their account, assuming certain minimum performance standards are achieved. The bonus is subject to a five-year vesting requirement. The amount of the bonus credited to an account for a given year will not be paid until five years later, providing the investment counselor is still employed by the Company. At its sole discretion, the Company may terminate the Agreement at any time and each investment counselor would be entitled to bonus payments in accordance with the remaining terms of the Agreement (including the waiting period for payment).

The Company recognizes 20% of the gross liability in each of the five years, since the bonus amount is payable at the end of the fifth year. Adjustments to previous amounts recorded will be made in succeeding years based on investment counselors' terminations. The total unrecognized amount of \$1,954,982 will be recorded in equal installments over the years needed to record the full liability by the end of the respective fifth year. At December 31, 2011, the liability to investment counselors under the Agreement aggregated \$6,650,740 and is included in accounts payable and accrued expenses.

DAVID LERNER ASSOCIATES, INC.
Notes to Statement of Financial Condition
December 31, 2011

Effective as of January 1, 1998, the Company established the David Lerner Associates, Inc. Equity Participation Plan (the "EPP"). The EPP, which is primarily for selected employees, has authorized 137,100 units representing 10% of the Company's equity for grants to employees. The Company did not authorize any new units during 2011. The EPP's units are essentially the economic equivalent of shares in the Company. Subject to the terms of the EPP and the equity participation agreement, the holder of EPP units will be paid for the value of such units, based upon a specified formula at the end of the grant period or, upon certain conditions, upon termination of employment with David Lerner Associates, Inc. As of December 31, 2011, 38,500 EPP units are outstanding with a future value totaling \$478,000. The liability for the EPP was \$482,000 and is included in accounts payable and accrued expenses at December 31, 2011.

Beginning in 2001, the Company established a deferred compensation plan that allows a certain percentage of the Company's highly compensated employees to elect to defer each year the receipt of their bonus, currently up to \$10,000. Beginning in 2006, the Company ceased accepting additional employee deferrals under this plan. As of December 31, 2011, the remaining liability under the Deferred Compensation plan was \$336,244, and is included in accounts payable and accrued expenses.

The Company has a commitment to a former employee that provides annual payments of \$100,000 for life, the present value of which, as of December 31, 2011, is \$1,120,834 and is recorded in accounts payable and accrued expenses on the accompanying statement of financial condition.

9. COMMITMENTS AND CONTINGENT LIABILITIES

The Company is obligated under several noncancellable lease agreements primarily for the rental of office space. The lease agreements contain customary escalation clauses based principally upon real estate taxes, building maintenance and utility costs.

Several of the above-mentioned leases are with LLC's owned by the Stockholder (see Note 3).

At December 31, 2011, minimum annual rental commitments, exclusive of common area charges, are as follows:

Year Ending December 31,	<u>Amount</u>
2012	\$ 1,926,647
2013	1,035,341
2014	594,258
2015	289,008
2016	199,788
Thereafter	<u>882,397</u>
Total	<u>\$ 4,927,439</u>

DAVID LERNER ASSOCIATES, INC.
Notes to Statement of Financial Condition
December 31, 2011

The Company has been named as a defendant in several claims and/or lawsuits, including a class action lawsuit, arising from its securities business. Certain of the legal actions include claims for compensatory and/or punitive damages or claims for indeterminate amounts of damages. Management of the Company believes that an adverse financial effect from these actions are not yet probable or estimatable and that their resolution will not have a material adverse effect on the Company.

The Company is also involved in other reviews, examinations and investigations and proceedings by regulatory agencies, (i.e., FINRA and the SEC), both formal and informal, regarding the Company's business activities, certain of which could result in adverse judgments, settlements, fines or other penalties.

In 2009, the Company received a subpoena from the SEC pursuant to a formal order of investigation of, among other things, certain of the Company's business activities. Management of the Company believes that an adverse financial effect from this action is not yet probable or estimatable and that the resolution of this matter will not have a material adverse effect on Company.

In May 2010, the Company received a complaint from FINRA's enforcement division in connection with the Company's pricing of various municipal bonds and collateralized mortgage obligations. The Company believes that this action is adequately reserved for in the Company's Financial Statements.

In May 2011, the Company received a complaint from FINRA's enforcement division in connection with the Company's role in the sale of Apple REIT Ten, Inc. The Company is actively defending this matter and Management of the Company believes that an adverse financial effect from this action is not yet probable or estimatable and that resolution of his matter will not have a material adverse effect on the Company.

For over 20 years, David Lerner Associates, Inc. has utilized the services of The Reserve Funds to provide a money market vehicle for clients to invest excess cash. The Reserve Funds are an independent mutual fund complex that is not affiliated with the Company. On September 16, 2008, The Reserve Funds announced that due to the bankruptcy filing by Lehman Brothers, it was valuing its Primary Fund's holding in Lehman Brothers debt securities at zero. As a result, the net asset value of the Primary Fund dropped below \$1.00 per share. Following this event was an unprecedented amount of requests for redemptions of The Reserve Funds, which created the need for The Reserve Funds to postpone the payment of redemptions. On September 17, 2008, the Company's clients had \$326 million at The Reserve Funds, which has been reduced by payments from The Reserve Funds to roughly \$231,000 at December 31, 2011.

In November 2008, David Lerner Associates, Inc. decided to utilize the services of Federated Investors, Inc., one of the largest mutual fund managers in the nation to provide money market mutual fund investments for its clients. The Company elected to automatically transfer clients' available money market balances from The Reserve Funds to Federated Funds.

10. GUARANTEES

FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," newly codified ASC 460, requires the Company to disclose information about its obligations under certain guarantee arrangements. ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying related to an asset, liability or

DAVID LERNER ASSOCIATES, INC.
Notes to Statement of Financial Condition
December 31, 2011

equity security of a guaranteed party. FIN 45 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

The Company is a member of a U.S. exchange and clearinghouse that trade and clear securities contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange or the clearinghouse. While the rules governing different exchange or clearinghouse memberships vary, in general the Company's guarantee obligations would arise only if the exchange or clearinghouse had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange or clearinghouse. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

11. NET CAPITAL REQUIREMENTS

The Company is subject to the Uniform Net Capital Rule ("Rule 15c3-1") under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by Rule ("15c3-1) which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions, as defined. (The Net Capital Rule of the New York Stock Exchange also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debits.) At December 31, 2011, the Company had net capital of \$25,620,188 which was 222% of aggregate debit balances and \$25,370,188 in excess of required net capital. The Company is also subject to the reserve requirements pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934, which require the Company to determine if cash or securities are required to be segregated for the exclusive benefit of customers. At December 31, 2011, the Company did not have a reserve requirement under this regulation.

Pursuant to SEC regulations and FINRA requirements concerning excess net capital, the Company intends to maintain its regulatory net capital at an amount in excess of \$25 million except as it may be reduced through normal operating losses for the near term.

12. INCOME TAXES

The Company has elected to be taxed as an S Corporation under the Internal Revenue Code. Accordingly, federal taxable income is reported separately by the Stockholders. The provision for income taxes for the year ended December 31, 2011, represents amounts provided for those states that impose a tax on S Corporations and for those states that do not recognize S Corporation status.

DAVID LERNER ASSOCIATES, INC.
Notes to Statement of Financial Condition
December 31, 2011

13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

As a securities broker, the Company is engaged in various brokerage activities servicing a diverse group of domestic corporations, individual investors and other brokers and dealers. All of the Company's transactions are collateralized and are executed with, and on behalf of, such clients. If a client's transaction does not settle because of the failure to perform by either the client or the counterparty, the Company may be required to discharge the obligation of the nonperforming party. The Company may incur a loss where the market value of a security rises and either the party from whom the Company has purchased the security does not make delivery, or where the Company has sold securities that it has not yet purchased.

The Company does not anticipate nonperformance by clients or counterparties in the above situations. The Company's policy is to monitor its market exposure and counterparty risk. In addition, the Company has procedures in place which are designed to monitor the creditworthiness of each client and counterparty with which it conducts business.

14. FAIR VALUE

Due to the nature of its operations, substantially all of the Company's assets are comprised of cash, receivables from brokers and dealers, customers and related parties, and securities owned. The carrying amounts of the receivables are a reasonable estimate of fair value or are at fair value. Similarly, substantially all of the Company's liabilities arise from payables to brokers and dealers and customers, securities sold, not yet purchased, and other short-term liabilities. The payables are short-term in nature and the carrying amounts are a reasonable estimate of fair value or are at fair value.

15. SUBSEQUENT EVENTS

The company has evaluated its December 31, 2011 financial statements for subsequent events through the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements



Audit • Tax • Advisory

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL REQUIRED BY SEC RULE 17a-5(g)**

Board of Directors

David Lerner Associates, Inc.

In planning and performing our audit of the financial statements of David Lerner Associates, Inc. (the "Company") as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the U.S. Securities and Exchange Commission ("SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e)
2. Making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2011, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



New York, New York
February 28, 2012