

SEC



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

SEC

Mail Processing  
Section

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8-51580

MAR 30 2012

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Washington DC**

405

REPORT FOR THE PERIOD BEGINNING 01/01/2011 AND ENDING 12/31/2011  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: DaVinci Capital Management, Inc.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

801 Cambridge Street

(No. and Street)

Cambridge

MA

02141

(City)

(State)

(Zip Code)

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

James J. McSweeney

(617) 354-0866 ext 16

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Samet & Company, PC

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

1330 Boylston Street

Chestnut Hill

MA

02467

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

**FOR OFFICIAL USE ONLY**

\*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)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, James J. McSweeney, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of DaVinci Capital Management, Inc., as of December 31, 20 11, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

[Handwritten Signature]
Signature
President
Title

[Handwritten Signature: James F. Toohy Jr.]
Notary Public

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



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**INDEPENDENT AUDITORS' REPORT**

*Certified Public Accountants*

To the Board of Directors and Stockholders of  
DaVinci Capital Management, Inc.

We have audited the accompanying statement of financial condition of DaVinci Capital Management, Inc. (a Delaware corporation) as of December 31, 2011, and the related statements of income, changes in stockholders' equity and cash flows for the year then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are 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 purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 statements referred to above present fairly, in all material respects, the financial position of DaVinci Capital Management, Inc. as of December 31, 2011 and the results of its operations and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in the accompanying supplemental schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Samet &amp; Company PC".

Chestnut Hill, Massachusetts

February 21, 2012, except for Note 7, as to which the date is March 21, 2012



DAVINCI CAPITAL MANAGEMENT, INC.

STATEMENT OF FINANCIAL CONDITION

December 31, 2011

ASSETS

Cash	\$ 106,209
Receivable from broker-dealers and clearing organizations	11,654
Deposits with clearing organizations	28,014
Other trade receivables	237
Securities owned	22,059
Property and equipment, net	<u>23,947</u>
	\$ <u>192,120</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued expenses	\$ <u>43,592</u>
Stockholders' equity:	
Common stock, no par value, Authorized 10,000 class A voting shares and 10,000 class B non-voting shares; issued and outstanding 900 class A shares	18,000
Additional paid-in capital	723,606
Accumulated deficit	(589,187)
Accumulated other comprehensive loss	<u>(3,891)</u>
	<u>148,528</u>
	\$ <u>192,120</u>



DAVINCI CAPITAL MANAGEMENT, INC.

**STATEMENT OF INCOME**  
**Year Ended December 31, 2011**

Revenues:	
Commission income	\$ 642,361
Financial planning income	10,527
Interest and dividend income	59
Miscellaneous income	2,300
Referral fee income	<u>183,387</u>
	<u>838,634</u>
Operating expenses:	
Clearing charges	21,452
Commissions	581,559
Computer expenses	7,250
Depreciation and amortization	9,339
Dues and subscriptions	995
Equipment rental	2,702
Insurance	7,756
Office expense	18,787
Office rent	30,000
Payroll taxes	5,077
Professional fees	12,071
Regulatory expenses	45,750
Salaries	69,154
Taxes - other	701
Telephone	3,620
Utilities	<u>1,141</u>
	<u>817,354</u>
Net income	\$ <u><u>21,280</u></u>



DAVINCI CAPITAL MANAGEMENT, INC.

**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

**Year Ended December 31, 2011**

	Class A		Additional	Accumulated	Accumulated	
	<u>Common Stock</u>		Paid-In	Accumulated	Other	
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Deficit</u>	<u>Comprehensive</u>	<u>Total</u>
					<u>Loss</u>	
Balance, January 1, 2011	900	\$ 18,000	\$ 774,926	\$ (610,467)	\$ (4,593)	<u>177,866</u>
Return of capital			(51,320)			<u>(51,320)</u>
Comprehensive income:						
Net income	-	-	-	21,280	-	21,280
Other comprehensive income:						
Unrealized holding gain on						
marketable securities	-	-	-	-	702	<u>702</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,982</u>
Balance, December 31, 2011	<u>900</u>	<u>\$ 18,000</u>	<u>\$ 723,606</u>	<u>\$ (589,187)</u>	<u>\$ (3,891)</u>	<u>148,528</u>



DAVINCI CAPITAL MANAGEMENT, INC.

**STATEMENT OF CASH FLOWS**

**Year Ended December 31, 2011**

Cash flows from operating activities:	
Net income	\$ 21,280
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	9,339
Changes in operating assets and liabilities:	
Receivable from broker-dealers and clearing organizations	3,594
Deposits with clearing organizations	(4)
Other trade receivables	68
Accounts payable and accrued expenses	<u>(27,193)</u>
Net cash provided by operating activities	7,084
Cash flows from investing activities:	
Purchases of property and equipment	(27,712)
Cash flows from financing activities	
Return of capital	<u>(51,320)</u>
Net decrease in cash during the year	(71,948)
Cash, beginning of year	<u>178,157</u>
Cash, end of year	\$ <u><u>106,209</u></u>
Supplemental cash flow information:	
Cash paid during the year for:	
Corporate taxes	\$ <u><u>468</u></u>



DAVINCI CAPITAL MANAGEMENT, INC.

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

Note 1 **Organization and nature of business**

DaVinci Capital Management, Inc. (the "Company") was incorporated in December 1998 and is a Delaware Corporation that is wholly owned by Airgead LLC. The Company operates as a broker-dealer and registered investment advisor in the New England area. The Company does business on a fully disclosed basis and, therefore, does not hold or maintain any customer accounts. The Company is a registered broker under the Securities and Exchange Act of 1934 and is a member of FINRA (Financial Industry Regulatory Authority) and SIPC (Securities Investor Protection Corp).

Note 2 **Summary of significant accounting policies**

**Revenue recognition**

Commission revenue is recognized when commissions are earned and the amount can be reasonably estimated.

**Receivable from broker-dealers and clearing organizations**

Receivable from broker-dealers and clearing organizations consist of commissions due under normal trade terms. The Company provides an allowance for doubtful collections which is based on a review of outstanding receivables, historical collection information, and existing economic conditions. At December 31, 2011 there was no reserve for uncollectible receivables.

**Marketable securities**

The Company accounts for its marketable securities at fair value, as the Company has categorized them as available-for-sale securities. Accordingly, unrealized holding gains and losses are excluded from earnings and reported in other comprehensive income, which is a separate component of stockholders' equity. Realized gains or losses are computed based on specific identification of securities that are sold and are included in earnings.

**Property and equipment**

Property and equipment is stated at cost. Depreciation and amortization are calculated on the straight-line method over the estimated useful lives of the related assets. Normal repair and maintenance costs are expensed as incurred.

**Income taxes**

The Company accounts for income taxes using an asset and liability approach. The difference between the financial statement and tax basis of assets and liabilities is determined annually. Deferred income tax assets and liabilities are computed for those differences that have future tax consequences using the currently enacted tax laws and rates that apply to the periods in which they are expected to affect taxable income.



DAVINCI CAPITAL MANAGEMENT, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2011

Note 2

**Summary of significant accounting policies (continued)**

**Income taxes (continued)**

Valuation allowances are established, if necessary, to reduce the deferred tax asset to the amount that will more likely than not be realized. Income tax expense or benefit from income taxes is the current tax payable or refundable for the period plus or minus the net change in the deferred tax assets or liabilities.

**Income tax positions**

The Financial Accounting Standards Board (“FASB”) issued a standard that clarifies the accounting and recognition of income tax positions taken or expected to be taken in the Company’s income tax returns. The Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. If the Company incurs interest or penalties as a result of unrecognized tax benefits the policy is to classify interest accrued with interest expense and penalties thereon with operating expenses. The Company’s income tax filings are subject to audit by various taxing authorities. The Company’s federal and state income tax returns are generally open for examination for the past three years.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Fair value**

Accounting standards require expanded disclosures to provide information about the extent to which fair value is used to measure certain assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. The Company’s financial assets and liabilities reflected in the financial statements at fair value include securities owned (see Note 4 and 8).

**Subsequent events**

The Company has evaluated subsequent events through February 21, 2012, which is the date the financial statements were available to be issued. There were no material subsequent events or transactions that required recognition or disclosure in the financial statements.



DAVINCI CAPITAL MANAGEMENT, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2011

Note 3 **Deposits with clearing organization**

The Company contracted with National Financial Services, Inc. (“NFS”) to act as their clearing agent. In connection with this agreement, NFS has required the Company to maintain a deposit of \$25,000 which is held in an interest bearing account and is included in deposits with clearing organizations on the accompanying statement of financial condition.

Note 4 **Securities owned**

The Company owns common stock in the NASDAQ Stock Market, Inc. These securities are deemed to be readily marketable. The estimated fair value at December 31, 2011 was \$22,059, as determined by quoted market prices. The cost of the securities was \$25,950.

Note 5 **Property and equipment**

Property and equipment consisted of the following at December 31, 2011:

	<u>Estimated Useful Lives</u>	
Computer equipment	3 years	\$49,531
Leasehold improvements	Life of lease	<u>4,056</u>
		53,587
Less accumulated depreciation and amortization		<u>29,640</u>
		<u>\$23,947</u>

Depreciation and amortization expense for the year ended December 31, 2011 was \$9,339.

Note 6 **Income taxes**

The deferred tax asset, and related valuation allowance, includes the following components at December 31, 2011:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Deferred tax asset	\$ 52,000	\$ 15,000	\$ 67,000
Valuation allowance	<u>(52,000)</u>	<u>(15,000)</u>	<u>(67,000)</u>
Net deferred tax asset	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



DAVINCI CAPITAL MANAGEMENT, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2011

Note 6

**Income taxes (continued)**

The Company recognizes deferred taxes for operating losses that are available to offset future federal and state income taxes. The Company has available net operating loss carryforwards of approximately \$154,000 for federal and Massachusetts state tax purposes. The federal and state net operating losses can be used to offset future taxable income and expire at various dates through December 2031 and December 2016, respectively.

The valuation allowance was established to reduce the deferred tax asset to the amount that will more likely than not be realized. This reduction is necessary due to uncertainty as to the Company's ability to utilize all of its net operating loss carryforwards before they expire. The change in the valuation allowance for the year ended December 31, 2011 was an increase of \$25,000.

Note 7

**Net capital requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of a minimum net capital balance and requires that the Company's aggregate indebtedness to net capital ratio, as defined, shall not exceed 15 to 1.

At December 31, 2011 the Company's net capital was \$115,921, which was \$110,921 in excess of its required net capital of \$5,000. The Company's aggregate indebtedness to net capital was 38%.

Subsequent to the original issuance of the financial statements dated February 21, 2012, the Company amended the reconciliation of their net capital computation as presented on the accompanying amended computation of net capital pursuant to uniform net capital rule 15c3-1 on page 11. The original computation did not include adjustments for the understatement of accounts payable and accrued expenses and the related effect of the undue concentration totaling \$2,482.

Note 8

**Fair value measurements**

Accounting standards require all financial assets and liabilities be recognized or disclosed in the financial statements on a recurring basis (at least annually). The standards define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The standards also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.



DAVINCI CAPITAL MANAGEMENT, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2011

Note 8

**Fair value measurements (continued)**

The standards describe three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets or liabilities in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for the assets or liabilities.

Level 3 - Unobservable inputs for the assets or liabilities. These inputs reflect the Company's assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following table summarizes the valuation of the Company's financial assets at December 31, 2011:

Financial Asset	December 31, 2011	Level 1	Level 2	Level 3
Equity securities	\$22,059	\$22,059	\$ -	\$ -
Total	\$22,059	\$22,059	\$ -	\$ -

The equity securities measured using Level 1 inputs are valued based on readily available market prices.

Note 9

**Related party transactions**

The Company is wholly owned by Airgead LLC, whose majority shareholder controls Comprehensive Insurance Providers ("CIP"). The Company received \$183,387 of referral fee income from CIP during the year ended December 31, 2011.

The Company leases its office space from a related entity as a tenant at will. Rent expense was \$30,000 for the year ended December 31, 2011.

Note 10

**Reserve requirement pursuant to Rule 15c3-3**

The Company is exempt from the provisions of Securities and Exchange Rule 15c3-3 under the exemptive provision under paragraph (k)(2)(ii) as all transactions with and for customers are cleared by other brokers on a fully disclosed basis.



DAVINCI CAPITAL MANAGEMENT, INC.

**COMPUTATION OF NET CAPITAL PURSUANT TO  
UNIFORM NET CAPITAL RULE 15c3-1  
Year Ended December 31, 2011**

Net capital		
Stockholders' equity	\$	148,528
Deductions and charges:		
Nonallowable assets:		
Receivable from broker-dealers and clearing organizations	(3,064)	
Other trade receivables	(237)	
Property and equipment, net	<u>(23,947)</u>	<u>(27,248)</u>
Net capital before haircuts on securities positions		121,280
Haircuts on securities:		
Trading and investing securities	(3,869)	
Undue concentration	<u>(1,490)</u>	<u>(5,359)</u>
Net capital	\$	<u>115,921</u>
Aggregate indebtedness		
Accounts payable and accrued expenses	\$	<u>43,592</u>
Computation of basic net capital requirement		
Minimum net capital required	\$	2,908
Minimum dollar net capital required		5,000
Net capital requirement		5,000
Excess net capital	\$	<u>110,921</u>
Excess net capital at 1000%	\$	<u>111,562</u>
Percentage of aggregate indebtedness to net capital		38%
<b>Reconciliation with Company's computation (included in part II of form X-17A-5 as of December 31, 2011)</b>		
Net capital, as reported in Company's part II (unaudited) focus report	\$	118,403
Changes in stockholder's equity:		
Accounts payable and accrued expenses		(2,445)
Undue concentration		<u>(37)</u>
Net capital per above	\$	<u>115,921</u>



To the Board of Directors and Stockholders  
of DaVinci Capital Management, Inc.

In planning and performing our audit of the financial statements of DaVinci Capital Management, 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 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 such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17(a)-3(a)(11) and for determining compliance with exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13.
2. 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.

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 practice procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC above-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 generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



Because of the 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 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 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 the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be a material weakness. 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 and 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 use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority and other regulatory agencies which 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.

Chestnut Hill, MA  
February 21, 2012

**DAVINCI CAPITAL MANAGEMENT, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Year Ended December 31, 2011**