



STATEMENT OF FINANCIAL CONDITION  
JUNE 24, 2011

**ASSETS**

Cash and cash equivalents .....	\$ 18,260,433
Cash segregated under federal and other regulations.....	4,335,618
Cash deposited with clearing organizations .....	1,246,268
Receivables from:	
Customers .....	10,861,668
Brokers and dealers .....	73,070
Related parties .....	403,415
Securities owned, at fair value.....	18,849,318
Furniture, equipment and leasehold improvements at cost, less accumulated depreciation of \$6,177,882 .....	2,509,317
Other assets .....	<u>1,824,111</u>
<b>TOTAL .....</b>	<b><u>\$ 58,363,218</u></b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Payables to:	
Customers .....	\$ 1,703,989
Brokers and dealers .....	2,807,408
Securities sold, not yet purchased, at fair value .....	180,973
Commissions payable .....	2,148,129
Accounts payable and accrued expenses. ....	<u>15,067,419</u>
	21,907,918

Stockholders' Equity:	
Common stock, voting, no par value; authorized, 200 shares; 10 shares outstanding .....	5,000
Common stock, non voting, no par value; authorized, 200 shares; 90 shares outstanding .....	
Additional paid-in capital.....	952,370
Retained earnings .....	<u>35,497,930</u>
Total stockholders' equity.....	<u>36,455,300</u>
<b>TOTAL .....</b>	<b><u>\$ 58,363,218</u></b>

**NOTES TO STATEMENT OF FINANCIAL CONDITION AS OF JUNE 24, 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. Purchases and sales of proprietary financial instruments as well as commission revenues and related expenses are recorded on a trade-date basis. Production-related compensation and benefits expense is recorded in the same period as the revenue to which it pertains.

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. Interest revenue and expense arising from financial instruments used in trading activities are reflected in the statement of income as interest revenue or expense. 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.

Revenues generated by the Company's sale and distribution of certain real estate investment trust ("REIT") units represent approximately 69% of total 2011 revenues. These REIT units have been issued by Apple REIT Ten, Inc., which owns hotels throughout the United States.

The Company is the exclusive distributing broker-dealer for the shares of the Spirit of America Investment Fund family of mutual funds (the "Spirit Funds") an affiliated entity. Commission revenue from Spirit Funds which represent 74% of the Company's total 2011 commissions from mutual funds.

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 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 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.

The fixed share transaction with the employees have been accounted for as a share based liability award under ASC Topic 718, and as risk of ownership transfers to the employee upon payment of the promissory notes, will continue to be reported in shareholders' equity until redeemed by the Company, upon the employee's employment elsewhere, or at the option of the Company upon the employee's death. 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 June 24, 2011, the Company did not have any material uncertain tax positions or which the statute of limitations remained open.

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). SFAS No. 167 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. SFAS No. 167 is effective as of the beginning of the first fiscal year beginning after November 15, 2009. The adoption of this new standard did not have a significant impact on our 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 accordance with the provisions of FASB ASC Topic 855. Management evaluates subsequent events through the issuance date of the Financial Statements.

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 June 24, 2011, the fair value of customer securities received as collateral where the Company was permitted to sell or repledge the securities was \$11,247,867, 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, 2011

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, 2011.

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 June 24, 2011, the receivables from related parties were as follows:

DSD	\$ 139,586
Spirit Management Company	77,032
Other	<u>186,797</u>
Total receivables from related parties	<u>\$ 403,415</u>

**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 hierarchal 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.

The following table summarizes the valuation of securities owned and sold under the fair value hierarchy levels as of June 24, 2011:

Securities owned and securities sold, not yet purchased, consist of the following:

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Cash and cash equivalents</b>			
Money market fund	<u>\$ 12,000,000</u>	<u>\$ -</u>	<u>\$ 12,000,000</u>
<b>Securities owned, at fair value</b>			
Mortgage-backed securities	\$ -	\$ 9,214,701	\$ 9,214,701
State and municipal obligations and other nonequities	-	8,274,621	\$ 8,274,621
Negotiable certificates of deposit	-	1,043,196	\$ 1,043,196
Equities	<u>\$ 316,800</u>	<u>-</u>	<u>\$ 316,800</u>
<b>Total securities owned, at fair value</b>	<u>\$ 316,800</u>	<u>\$ 18,532,518</u>	<u>\$ 18,849,318</u>

	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
<b>Securities sold, not yet purchased, at fair value</b>			
Mortgage-backed securities	\$ -	\$ 1,267	\$ 1,267
State and municipal obligations and other nonequities	-	179,706	179,706
Equities	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total securities sold, not yet purchased, at fair value</b>	<u>\$ -</u>	<u>\$ 180,973</u>	<u>\$ 180,973</u>

**5. FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS**

At June 24, 2011, furniture, equipment, and leasehold improvements consist of the following:

Furniture and fixtures	\$ 4,175,939
Data processing equipment	1,670,678
Leasehold improvements	1,770,198
Telephone equipment	983,504
Automobiles	<u>86,880</u>
Total	8,687,199
Less accumulated depreciation and amortization	<u>(6,177,882)</u>
Furniture, equipment, and leasehold improvements - net	<u>\$ 2,509,317</u>

**6. OTHER ASSETS**

At June 24, 2011, other assets consist of the following:

Commissions receivable	\$ 415,307
Deferred compensation asset	336,915
Prepaid expenses	389,539
Prepaid insurance	188,980
Other	<u>493,370</u>
Total other assets	<u>\$ 1,824,111</u>

**NOTES TO STATEMENT OF FINANCIAL  
CONDITION AS OF JUNE 24, 2011 (Cont'd)**

**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 June 24, 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. At June 24, 2011, the liability to investment counselors under the Agreement aggregated \$6,826,780 and is included in accounts payable and accrued expenses.

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 39,500 units outstanding. 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. The liability for the EPP was \$574,371 and is included in accounts payable and accrued expenses at June 24, 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 June 24, 2011, the remaining liability under the Deferred Compensation plan was \$336,915, 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 June 24, 2011, is \$1,144,182 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 June 24, 2011, minimum annual rental commitments, exclusive of common area charges, are as follows:

Year Ending December 31,	Amount
2011	\$ 859,911
2012	851,020
2013	785,989
2014	394,850
2015	<u>89,220</u>
Total	<u>\$ 2,980,990</u>

The Company has been named as a defendant in several claims and/or lawsuits 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. Based on discussions with legal counsel, management of the Company believes that these actions are adequately provided for, and that their resolution will not have a material adverse effect on the results of operations or

the financial condition of the Company.

The Company is also involved in other reviews, examinations and investigations and proceedings by various 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. 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. On May 27, 2011, FINRA filed a regulatory complaint against DLA related to its sales of Apple REIT Ten units. Information about FINRA's Complaint can be found on the FINRA Website ([www.finra.org/newsroom](http://www.finra.org/newsroom)) and information about DLA's response can be found on ([www.davidlerner.com](http://www.davidlerner.com)). In addition, several class action lawsuits have been filed against Apple REIT Ten, other Apple REIT companies, DLA and/or others. DLA and the Apple REIT companies intend to vigorously defend these lawsuits.

At this time, the outcome of these cases cannot be predicted.

**10. GUARANTEES**

FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," requires the Company to disclose information about its obligations under certain guarantee arrangements. FIN 45 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 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 the Rule, 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 June 24, 2011, the Company had net capital of \$27,184,913 which was 273% of aggregate debit balances and \$26,934,913 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 June 24, 2011, the Company did not have a reserve requirement under this regulation.

**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 June 24, 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.

**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.

As of June 24, 2011, the Company sold short for future settlement contracts for pools of US Government Agency Mortgage Backed Securities ("TBAs") with a principal value of \$4,132,941.

**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.



STATEMENT OF  
FINANCIAL CONDITION  
(UNAUDITED)  
JUNE 24, 2011

Corporate Headquarters:  
477 Jericho Turnpike, Syosset, NY 11791-9006  
1-800-367-3000

Branches in Teaneck & Princeton, NJ; Westport, CT;  
White Plains, NY and Boca Raton, FL

*The most recent annual report, prepared pursuant to Rule 17a-5, under the Securities Exchange Act of 1934, is available for examination and copying at our headquarters, and at the Northeast Regional Office of the Securities and Exchange Commission.*

**SECURITIES PROTECTION**

*We are a member of the Securities Investor Protection Corporation (SIPC). Securities held by us in your account are protected up to a maximum of \$500,000 per client, including up to a maximum of \$250,000 for cash. In addition, we have obtained additional securities protection through a commercial insurer of up to \$14,500,000. Neither this coverage nor any other governmental insurance agency coverage applies to money market funds nor to losses that result from fluctuations in the market value of your investments nor to unregistered securities.*