

SECURIT

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

SEC FILE NUMBER
8-39048

FACING PAGE

Information Requested of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/10 AND ENDING 12/31/10
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Prager, Sealy & Co., LLC**

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
One Maritime Plaza, Suite 1000

(No. and street)

San Francisco **California** **94111**
(City) (State) (Zip Code)

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

David R. Porter **415-403-1900**
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Deloitte & Touche LLP

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

50 Fremont Street **San Francisco** **CA** **94105**
(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

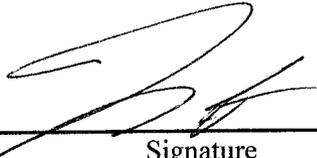
* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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OATH OR AFFIRMATION

We, Fredric J. Prager and David R. Porter, affirm that, to the best of our knowledge and belief, the accompanying statement of financial condition pertaining to the firm of Prager, Sealy & Co., LLC, as of December 31, 2010, are true and correct. We further affirm that neither the Company nor any member, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.



Signature

Director Member/Executive Principal
Title

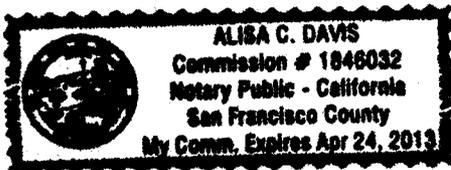


Signature

Director Member/
Financial Operations Principal
Title



Notary Public



Prager, Sealy & Co., LLC

(SEC. I.D. NO. 8-39048)

Statement of Financial Condition as of
December 31, 2010 and Independent Auditors' Report
and Supplemental Report on Internal Control

PUBLIC DOCUMENT

*Pursuant to Rule 17a-5(e)(3) under
the Securities Exchange Act of 1934.*

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INDEPENDENT AUDITORS' REPORT

To the Members of
Prager, Sealy & Co., LLC

We have audited the accompanying statement of financial condition of Prager, Sealy & Co., LLC (the "Firm") as of December 31, 2010, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Firm'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. 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 purpose of expressing an opinion on the effectiveness of the Firm'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, such statement of financial condition presents fairly, in all material respects, the financial position of the Company at December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

March 14, 2011

PRAGER, SEALY & CO., LLC

STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2010

ASSETS

CASH AND EQUIVALENTS:

Cash	\$ 5,714
Cash on deposit with clearing broker-dealer	<u>6,126,622</u>
Total cash and equivalents	6,132,336

SECURITIES OWNED 14,507,647

RECEIVABLES FROM BROKERS AND DEALERS 834,047

OTHER RECEIVABLES AND DEPOSITS 3,616,974

RELATED PARTY RECEIVABLES — Net 2,600,384

OFFICE FACILITIES AND EQUIPMENT — Net 1,745,187

TOTAL \$29,436,575

LIABILITIES AND MEMBERS' CAPITAL

LIABILITIES:

Due to clearing broker-dealer on line of credit	\$ 9,426,825
Bank loans outstanding	4,916,489
Related party payables	1,692,699
Accounts payable and accrued expenses	<u>3,269,531</u>
Total liabilities	<u>19,305,544</u>

MEMBERS' CAPITAL:

Managing member	195,989
Limited members	<u>9,935,042</u>
Total members' capital	<u>10,131,031</u>

TOTAL \$29,436,575

See notes to statement of financial condition.

PRAGER, SEALY & CO., LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION FOR THE YEAR ENDED DECEMBER 31, 2010

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization — Prager, Sealy & Co., LLC, a Delaware Limited Liability Company (the “Firm”), was formed in November 1987 and became a registered broker-dealer on March 3, 1988. The Firm is an investment banking and general securities broker-dealer, specializing in fixed income securities, with offices in San Francisco, New York, Orlando, Tampa and Great Falls, VA. The sole managing member of the Firm is Prager, Sealy Management Co., LLC, a Delaware Limited Liability Company.

Security Transactions — Security transactions are executed and carried by an independent clearing broker-dealer on a fully disclosed basis. Securities owned are recorded on a trade date basis.

Cash and Equivalents — The Firm considers all highly liquid investments with an original maturity of three months or less and cash on deposit with the Firm’s clearing broker-dealer to be cash equivalents.

Securities Owned — Securities owned are stated at market value, which is determined by quoted market prices, recent transactions, and comparable financial instrument values.

Office Facilities and Equipment — Office facilities and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful life, generally three to five years.

Income Taxes — As a limited liability company that is treated as a partnership for income tax purposes, the Firm is not directly liable for income taxes. All of the Firm’s income and losses are reportable by the members. Because the income or loss of the Firm is passed through to and the resulting tax consequences are borne by its members, the Firm does not record a liability for income taxes. The Firm must still evaluate uncertain tax positions by reviewing against applicable tax law all positions taken by the Firm with respect to tax years for which the statute of limitations is still open.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement. Estimates include amounts recorded for financial instruments, other receivables, accrued expenses, contingent liabilities, and depreciation. Actual results could differ from those estimates. The Firm has evaluated subsequent events occurring between the fiscal year end and the date the financial statements were issued.

2. FAIR VALUE OF ASSETS AND LIABILITIES

FASB authoritative guidance defines fair value as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Authoritative guidance also establishes a hierarchy for disclosing assets and liabilities measured at fair value based on the inputs used to value them. The fair value hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are based on market pricing data obtained from sources independent of the Firm. A quoted price in an active market provides the most reliable evidence of fair value and is generally used to measure fair value whenever available.

Unobservable inputs reflect management's judgment about the assumptions market participants would use in pricing the asset or liability. Where inputs used to measure fair value of an asset or liability are from different levels of the hierarchy, the asset or liability is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires judgment.

The fair value hierarchy includes three levels based on the objectivity of the inputs as follows:

- Level 1 inputs are quoted prices in active markets as of the measurement date for identical assets or liabilities that the Firm has the ability to access. This category includes active exchange-traded mutual funds and equity securities. The Company did not transfer any assets or liabilities between level 1 and level 2 during 2010.
- Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. This category includes certificates of deposit, corporate debt securities, U.S. agency and municipal debt securities, and U.S. Treasury securities.
- Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Assets Recorded at Fair Value

Significant assets valued at fair value include securities owned and futures and options contracts. The Firm uses prices obtained from independent third-party pricing services to measure the fair value of these securities. The Firm validates prices received from the pricing service using various methods including comparison to quoted market prices, where available. The Firm does not adjust the prices received from the independent third-party pricing service unless such prices are inconsistent with authoritative guidance and result in a material difference in the recorded amounts.

The following table presents the Firm's fair value hierarchy as of December 31, 2010 for assets measured at fair value:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at Fair Value
Assets				
Securities owned—municipal bonds	\$ -	\$ 14,507,647	\$ -	\$ 14,507,647
Forward contracts, included in receivables from brokers and dealers	53,047			53,047
Options contracts, included in receivables from brokers and dealers	31,250			31,250
Total assets at fair value	<u>\$ 84,297</u>	<u>\$ 14,507,647</u>	<u>\$ -</u>	<u>\$ 14,591,944</u>
Liabilities				
Short positions — options contracts (included in accounts payable and accrued expenses)	<u>\$(61,563)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(61,563)</u>
Total liabilities at fair value	<u>\$(61,563)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(61,563)</u>

Fair Value of Assets and Liabilities Not Recorded at Fair Value

Descriptions of the valuation methodologies used to estimate the fair value of assets and liabilities not recorded at fair value are as follows:

Cash and cash equivalents, receivables, payables, and accrued expenses and other liabilities include cash and highly liquid investments, receivables and payables from/to brokers and dealers, other receivables and deposits, bank lines of credit and accounts payable and accrued expenses which are short term in nature and accordingly are recorded at amounts that approximate fair value.

3. OFFICE FACILITIES AND EQUIPMENT

Office facilities and equipment at December 31, 2010, consist of the following:

Computerized office equipment	\$ 906,398
Computer software	489,168
Furniture, fixtures, and equipment	554,399
Leasehold improvements	<u>1,223,757</u>
	3,173,722
Less accumulated depreciation	<u>(1,428,535)</u>
Office facilities and equipment — net	<u>\$ 1,745,187</u>

4. MEMBERS' CAPITAL

Under the limited liability company agreement, certain capital contributions of approximately \$550,000 from certain limited members are maintained to provide sufficient regulatory net capital for the Firm's

underwriting business. This capital may be withdrawn by such members upon six months prior written notice, as long as the withdrawal would not create a deficiency in the Firm's net capital. Interest earned on these assets is paid to such limited members. Also, substantially all limited members receive annual payments equal to a percentage of their average capital balance, as defined. Such contractual payments are included in expenses in accordance with the limited liability company agreement.

The limited liability company agreement provides for distributions and net income to be allocated between limited and managing members on a pro-rata ownership basis. Allocations of net losses are made first to the managing member, then to limited members on a pro-rata ownership basis.

5. RELATED-PARTY TRANSACTIONS

The Firm has an agreement with the managing member under which the managing member performs certain functions relating to the management of the Firm.

Included in related party receivables at December 31, 2010, is noninterest bearing advances made by the Firm to the managing member, limited members and former limited members, net of an allowance of \$184,364.

Related party payables at December 31, 2010, primarily relate to \$1,304,244 due to the managing member, representing unpaid management fees.

6. NET CAPITAL REQUIREMENTS

The Firm is subject to the Uniform Net Capital Rule under the Securities Exchange Act of 1934. Under the alternative method permitted by this Rule, a firm must maintain minimum net capital equal to the greater of \$250,000 or 2% of combined aggregate debit balances as shown in the formula for reserve requirements pursuant to Rule 15c3-3. At December 31, 2010, the Firm's regulatory net capital was \$515,270 which was \$265,270 in excess of the required net capital.

7. EMPLOYEE BENEFIT PLAN

The Firm maintains a qualified employee 401(k) plan. The plan is self-administered and may be altered or terminated at any time by the Firm. The Firm matches certain employee contributions. Contributions by the Firm to the plan are determined by management within Federal tax limits.

8. LEASE ARRANGEMENTS

The Firm has various lease arrangements for office space under non-cancelable operating lease agreements through May 2020. Future annual gross payments under these arrangements are as follows:

2011	\$ 1,304,200
2012	1,140,900
2013	1,055,500
2014	1,079,600
2015	1,095,000
Thereafter	<u>4,488,100</u>
Total	<u>\$10,163,300</u>

9. COMMITMENTS AND CONTINGENT LIABILITIES

The nature of the Firm's business subjects it to claims, lawsuits, regulatory examinations, and other proceedings in the ordinary course of business. Predicting the outcome of a matter is inherently difficult, especially if claimants seek unspecified damages, or when examinations or proceedings are at an early stage. During 2010, the Firm reversed a loss contingency liability of \$750,000 as a result of a settlement that did not result in a loss to the Firm.

10. LINES OF CREDIT

The Firm maintains a line of credit with its fully-disclosed clearing broker-dealer in the amount of \$50,000,000 for the purpose of financing its securities owned. Interest on this facility is at the clearing brokers cost of funds rate plus 1/2%, which equated to 1.8202% at December 31, 2010. The average daily outstanding balance on this line during the year ended December 31, 2010, was approximately \$14,191,792. There was an outstanding balance of \$9,426,825 on December 31, 2010. The securities owned by the Firm and held at its clearing broker are used to collateralize the outstanding balance.

The Firm also has a line of credit of \$8,500,000 with a local bank under which it may borrow from time to time for general operating purposes at the prime rate, which equated to 3.375% at December 31, 2010. The Firm had an average outstanding balance of \$4,753,016 on this line of credit during the year ended December 31, 2010. There was an outstanding balance of \$4,916,489 on December 31, 2010, under this facility.

11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

As a securities broker-dealer, the Firm is engaged primarily in buying and selling municipal securities predominantly with domestic institutional investors. The Firm's transactions are executed with and on behalf of institutional investors, including other brokers and dealers, commercial banks, insurance companies, pension plans, monetary funds, and other financial institutions. The Firm introduces these transactions for clearance on a fully-disclosed basis.

The agreement between the Firm and its clearing broker provides that the Firm is obligated to assume any exposure related to nonperformance by its customers. The Firm seeks to control the risk associated with nonperformance by reviewing information it receives from its clearing broker on a daily basis and reserves for doubtful accounts when necessary.

During the normal course of business the Firm may sell securities that it has not yet purchased, which represent obligations of the Firm to deliver the specified security at a contracted price, thereby creating a liability to purchase the security in the market at prevailing prices. Such transactions result in off-balance-sheet market risk as the Firm's ultimate obligation to satisfy the sale of securities sold, not yet purchased, may exceed the amount recorded in the statement of financial condition. The Firm seeks to control such market risk through the use of internal monitoring guidelines. The Firm had no such positions as of December 31, 2010.

In the normal course of business, the Firm enters into underwriting commitments. There were no transactions relating to such underwriting commitments that were open as of December 31, 2010.

From time to time, the Firm may enter into financial futures and option contracts intended to hedge proprietary securities positions. As of December 31, 2010, there were commitments to sell such futures contracts with a notional face value of approximately \$20,000,000. In addition at December 31, 2010, there were commitments to buy such futures contracts with a notional face value of approximately

\$12,000,000. The value of such contracts to buy and to sell futures contracts is recorded in receivables from brokers and dealers and accounts payable and accrued expenses.

* * * * *

March 14, 2011

To the Members of
Prager, Sealy & Co., LLC

In planning and performing our audit of the financial statements of Prager, Sealy & Co., LLC (the "Firm") as of and for the year ended December 31, 2010 (on which we issued our report dated March 14, 2011 and such report expressed an unqualified opinion on those financial statements), in accordance with auditing standards generally accepted in the United States of America, we considered the Firm's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Firm's internal control. Accordingly, we do not express an opinion on the effectiveness of the Firm's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Firm, 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 making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11) and for determining compliance with the 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 Firm in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13 or in 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 Firm 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 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 Firm 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 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 Firm'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 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 above.

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 Firm's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2010, to meet the SEC's objectives.

This report is intended solely for the information and use of the Members, management, the SEC, 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 broker-dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Yours truly,

Deloitte + Touche LLP