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

**FACING PAGE**

**Information Required 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 1-1-01 AND ENDING 12-31-01  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

W. C. Smith & Co., Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

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

23 Cleveland Street  
(No. and Street)

Greenville South Carolina 29602  
(City) (State) (Zip Code)

REC'D S.E.C.  
FEB 15 2002

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

Welton C. Smith (864) 235-1222  
(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

Byerley & Payne, CPA, PA  
(Name — if individual, state last, first, middle name)

114 West North First Street Seneca South Carolina 29678  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

**PROCESSED**

**MAR 22 2002**

FOR OFFICIAL USE ONLY  
THOMSON FINANCIAL

\*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).

19  
3/21

OATH OR AFFIRMATION

I, Welton C. Smith, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of W. C. Smith & Co., Inc., as of December 31, 2001, 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:

None

Welton Smith  
Signature  
President  
Title

Vickie M. Sherman  
Notary Public

My Commission Expires  
May 18, 2008

- This report\*\* contains (check all applicable boxes):
- (a) Facing page.
  - (b) Statement of Financial Condition.
  - (c) Statement of Income (Loss).
  - (d) Statement of Cash Flows.
  - (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's 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).

W. C. Smith and Co., Inc.  
Greenville, South Carolina  
December 31, 2001

Table of Contents

|  | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report   | 1           |
| Statement of Financial Condition   | 2           |
| Statement of Income  | 3           |
| Statement of Changes in Stockholder's Equity   | 4           |
| Statement of Cash Flows  | 5           |
| Notes to Financial Statements  | 6-7         |
| Schedule I - Computation of Net Capital Under Rule<br>15c3-1 of the Securities and Exchange Commission                           | 8           |
| Report on Internal Control Structure Required by SEC Rule 17a-5<br>for a Broker - Dealer Claiming Exemption from SEC Rule 15c3-3 | 9-10        |

# Byerley & Payne

MEMBER OF  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
AND  
SOUTH CAROLINA ASSOCIATION  
OF CERTIFIED PUBLIC ACCOUNTANTS

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E-mail map@innova.net

NEIL E. BYERLEY (Retired)  
MARK A. PAYNE, CPA

## Independent Auditors' Report

Board of Directors  
W. C. Smith & Co., Inc.

We have audited the accompanying statement of financial condition of W. C. Smith & Co., Inc. as of December 31, 2001, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended that you are filing 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 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 W. C. Smith & Co., Inc. at December 31, 2001, 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 contained in Schedule 1 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.



Byerley & Payne, CPA, PA

Seneca, South Carolina  
January 18, 2002

**W. C. Smith and Co., Inc.**  
**Greenville, South Carolina**  
**Statement of Financial Condition**  
**December 31, 2001**

**Assets**

|  |                          |
|--|--------------------------|
| Cash   | \$ 46,636                |
| Commissions Receivable                                     | 28,439                   |
| Cash Deposit with Clearing Broker                          | 15,000                   |
| Investments  | 10,300                   |
| Equipment at Cost Less Accumulated Depreciation of \$6,006 | 1,157                    |
| Other Assets   | 271                      |
| <b>Total Assets</b>  | <u><u>\$ 101,803</u></u> |

**Liabilities and Stockholder's Equity**

**Liabilities:**

|  |               |
|--|---------------|
| Commissions Payable                    | \$ 56,455     |
| Retirement Payable                     | 20,534        |
| Payroll Withholdings and Taxes Payable | 461           |
| <b>Total Liabilities</b>               | <u>77,450</u> |

**Stockholder's Equity:**

|                                   |               |
|-----------------------------------|---------------|
| Common Stock, \$1 Par Value       |               |
| Authorized 100,000, Issued 1,000  | 1,000         |
| Additional Paid In Capital        | 24,892        |
| Retained Earnings                 | (1,539)       |
| <b>Total Stockholder's Equity</b> | <u>24,353</u> |

|   |                          |
|---|--------------------------|
| <b>Total Liabilities and Stockholder's Equity</b> | <u><u>\$ 101,803</u></u> |
|---|--------------------------|

The accompanying notes are an integral part of these financial statements.

**W. C. Smith and Co., Inc.**  
**Greenville, South Carolina**  
**Statement of Income**  
**For the Year Ended December 31, 2001**

|                              |                   |
|------------------------------|-------------------|
| <b>Revenues:</b>             |                   |
| Commissions                  | \$ 1,294,192      |
| Miscellaneous                | 38,035            |
| Interest                     | <u>3,928</u>      |
| <b>Total Revenues</b>        | <u>1,336,155</u>  |
| <b>Expenses:</b>             |                   |
| Commissions and Wages        | 1,105,454         |
| Clearing Fees                | 108,451           |
| Retirement Expense           | 20,534            |
| Licenses, Fees and Insurance | 49,238            |
| Office Expense               | 8,760             |
| Telephone and Communications | 6,011             |
| Rent                         | 10,200            |
| Payroll Taxes                | 11,872            |
| Research and Other Expense   | 2,596             |
| Advertising                  | 400               |
| Seminars and Education       | 300               |
| Legal and Accounting         | 8,282             |
| Travel and Meals             | 5,046             |
| Dues and Subscriptions       | 4,562             |
| Contracted Services          | 445               |
| Depreciation                 | 289               |
| Miscellaneous                | <u>2,435</u>      |
| <b>Total Expenses</b>        | <u>1,344,875</u>  |
| <b>Net Income (Loss)</b>     | <u>\$ (8,720)</u> |

The accompanying notes are an integral part of these financial statements.

**W. C. Smith and Co., Inc.**  
**Greenville, South Carolina**  
**Statement of Changes in Stockholder's Equity**  
**For the Year Ended December 31, 2001**

|                                       | <u>Common Stock</u> |                 | <u>Additional</u> | <u>Retained</u>   | <u>Total</u>         |
|---------------------------------------|---------------------|-----------------|-------------------|-------------------|----------------------|
|                                       | <u>Shares</u>       | <u>Amount</u>   | <u>Paid In</u>    | <u>Earnings</u>   | <u>Stockholder's</u> |
|                                       |                     |                 | <u>Capital</u>    |                   | <u>Equity</u>        |
| <b>Balance at Beginning of Period</b> | 1,000               | \$ 1,000        | \$ 24,892         | \$ 33,033         | \$ 58,925            |
| Issuance of Common Stock              | -                   | -               | -                 | -                 | -                    |
| Additional Paid In Capital            | -                   | -               | -                 | -                 | -                    |
| Net Income (Loss)                     | -                   | -               | -                 | (8,720)           | (8,720)              |
| Distributions                         | -                   | -               | -                 | (25,852)          | (25,852)             |
| <b>Balance at End of Period</b>       | <u>1,000</u>        | <u>\$ 1,000</u> | <u>\$ 24,892</u>  | <u>\$ (1,539)</u> | <u>\$ 24,353</u>     |

The accompanying notes are an integral part of these financial statements.

W. C. Smith and Co., Inc.  
Greenville, South Carolina  
Statement of Cash Flows  
For the Year Ended December 31, 2001

|  |                 |                  |
|--|-----------------|------------------|
| <b>Cash Flows from Operating Activities:</b>             |                 |                  |
| Net Income (Loss)  |                 | \$ (8,720)       |
| <b>Adjustments to Reconcile Net Income to</b>            |                 |                  |
| <b>Net Cash Provided (Used) by Operating Activities:</b> |                 |                  |
| Depreciation   | \$ 289          |                  |
| Decrease in Commissions Receivable                       | 69,084          |                  |
| Increase in Other Assets                                 | (271)           |                  |
| Decrease in Commissions Payable                          | (15,117)        |                  |
| Decrease in Payroll Withholdings and Taxes Payable       | (1,891)         |                  |
| Decrease in Retirement Payable                           | <u>(12,385)</u> |                  |
| <b>Total Adjustments</b>                                 |                 | <u>39,709</u>    |
| <b>Net Cash Provided (Used) by Operating Activities</b>  |                 | 30,989           |
| <b>Cash Flows from Investing Activities:</b>             |                 |                  |
| Purchase of Equipment                                    | <u>(1,446)</u>  |                  |
| <b>Net Cash Provided (Used) by Investing Activities</b>  |                 | (1,446)          |
| <b>Cash Flows From Financing Activities:</b>             |                 |                  |
| Payment of Distributions                                 | <u>(25,852)</u> |                  |
| <b>Net Cash Provided (Used) by Financing Activities</b>  |                 | <u>(25,852)</u>  |
| <b>Increase in Cash</b>                                  |                 | 3,691            |
| <b>Cash at Beginning of Period</b>                       |                 | <u>42,945</u>    |
| <b>Cash at End of Period</b>                             |                 | <u>\$ 46,636</u> |

The accompanying notes are an integral part of these financial statements.

**W. C. Smith and Co., Inc.**  
**Greenville, South Carolina**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 1 - Organization and Nature of Business:**

The Company is a broker-dealer registered with the Securities and Exchange Commission and is a member of the National Association of Securities Dealers, Inc. It was formed under the laws of South Carolina. The Company clears all trades through a clearing broker and no customer accounts are carried on its books.

**Note 2 - Significant Accounting Policies:**

**Basis of Accounting**

The Company uses the accrual basis of accounting. Commissions and related clearing expenses are recorded on a trade date basis. All other material revenue and expense is recorded when earned or incurred.

**Investments**

Investments in debt and equity securities with readily available market values are recorded at market value. Securities that do not have readily available market prices are carried at cost.

**Depreciation**

Depreciation is provided on a straight-line basis using an estimated useful life of five years. Depreciation expense for 2001 totaled \$289.

**Income Taxes**

The Company has elected to have the earnings taxed under Section 1362 of the Internal Revenue Code and similar provisions of South Carolina law which provide that in lieu of corporate income taxes the stockholder is taxed on his proportionate share of the Company's earnings.

**Statement of Cash Flows**

For purposes of the statement of cash flows, the Company has defined cash equivalents as highly liquid investments, with original maturities of less than ninety days, that are not held for sale in the ordinary course of business.

**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 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.

**Note 3 - Deposit With Clearing Organization:**

The contract with the clearing agent requires the Company to maintain a clearing deposit of \$15,000 with the clearing agent. At year end, the Company was in compliance with this provision.

**Note 4 - Concentrations of Credit Risk:**

Commissions receivable are due from the Company's clearing agent and various mutual funds.

**W. C. Smith and Co., Inc.**  
**Greenville, South Carolina**  
**Notes to Financial Statements**  
**December 31, 2001**

**Note 5 - Investments:**

The Company participated in a private placement offering by the NASDAQ Stock Market, Inc. A total of 800 warrants were purchased at a cost of \$10,300. Each warrant will entitle the Company to purchase 4 shares of the NASDAQ Stock Market, Inc. at a predetermined price beginning June 28, 2002. At year end, the warrants had no readily available market price and therefore, are recorded at cost.

**Note 6 - Net Capital Requirements:**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Equity capital cannot be withdrawn through company stock repurchases, dividends, and unsecured loans to the stockholder if such withdrawals would reduce net capital below 120% of the minimum net capital requirement. At December 31, 2001, the Company had net capital of \$12,625, which was \$7,459 in excess of its required net capital of \$5,166. The Company's net capital ratio was 6.14 to 1.

**Note 7 - Operating Lease:**

The Company leases office space on a month-to-month basis. The monthly lease cost is \$850. Rent expense totaled \$10,200 in 2001.

**Note 8 - Retirement Plan:**

The Company has established a Simplified Employee Pension Plan. All employees who are twenty-one-years-old, who have \$400 in wages, and who have worked three years for the Company are eligible to participate. Retirement expense totaled \$20,534 in 2001.

W. C. Smith and Co., Inc.  
**Computation of Net Capital Under Rule  
 15c3-1 of The Securities and Exchange Commission**  
 December 31, 2001

Schedule 1

|  |                  |
|--|------------------|
| Net Capital  |                  |
| Total Stockholder's Equity                                   | \$ 24,353        |
| Deductions:  |                  |
| Nonallowable Assets  | <u>(11,728)</u>  |
| Net Capital  | <u>\$ 12,625</u> |
| Aggregate Indebtedness                                       |                  |
| Items Included in Statement of Financial Condition:          |                  |
| Payroll Withholdings and Taxes Payable                       | \$ 461           |
| Commissions Payable  | 56,455           |
| Retirement Payable   | <u>20,534</u>    |
| Total Aggregate Indebtedness                                 | <u>\$ 77,450</u> |
| Computation of Basic Net Capital Requirement                 |                  |
| Minimum Net Capital Required                                 | <u>\$ 5,166</u>  |
| Excess Net Capital at 1,500 Percent                          | <u>\$ 7,459</u>  |
| Excess Net Capital at 1,000 Percent                          | <u>\$ 4,880</u>  |
| Ratio: Aggregate Indebtedness to Net Capital                 | 6.14 to 1        |
| Reconciliation of Company's Computation of Net Capital:      |                  |
| Net Capital as Reported in Company's<br>Part II Focus Report | \$ 12,625        |
| Adjustments:   |                  |
| None   | <u>-</u>         |
| Net Capital Per Above  | <u>\$ 12,625</u> |

See accountants' audit report.

MEMBER OF  
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SOUTH CAROLINA ASSOCIATION  
OF CERTIFIED PUBLIC ACCOUNTANTS

## Byerley & Payne

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TELEPHONE: (864) 882-1937, FAX: (864) 882-1938  
E-mail map@innova.net

NEIL E. BYERLEY (Retired)  
MARK A. PAYNE, CPA

### Report on Internal Control Structure Required by Sec Rule 17a-5 For a Broker-Dealer Claiming an Exemption from Sec Rule 15c3-3

Board of Directors  
W. C. Smith & Co., Inc.

In planning and performing our audit of the financial statements and supplemental schedules of W. C. Smith & Co., Inc. for the year ended December 31, 2001, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including 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 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 Company in any of the following:

1. Making quarterly securities examinations, counts, verifications and comparisons
2. 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.

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 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 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 or 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.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation on the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including 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 Company's practices and procedures were adequate at December 31, 2001, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, 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.



Byerley & Payne, CPA, PA

Seneca, South Carolina  
January 18, 2001