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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: February 28, 2010  
Estimated average burden  
hours per response..... 12.00

19  
3/3

SEC FILE NUMBER  
8- 48058

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 01/01/09 AND ENDING 12/31/09  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Sterling Smith Corporation

OFFICIAL USE ONLY

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

FIRM I.D. NO.

4326A Scotland

(No. and Street)

Houston

TX

77007

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Sterling Smith 713-861-6500

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

Easley, Endres, Parkhill, & Brackendorff, P.C.

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

1333 West Loop South, Suite 1400 Houston TX 77027  
(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 17a-5(e)(2)

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SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Sterling 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 Sterling Smith Corporation, as of December 31, 2009, 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:



Sterling Smith
Signature

CFO

Title

Dianne E Pearson, State of Texas, County of Harris, 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.
x Report on internal control

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

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# STERLING SMITH CORPORATION

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

DECEMBER 31, 2009

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INDEPENDENT AUDITORS' REPORT

February 12, 2010

To the Stockholder  
STERLING SMITH CORPORATION  
Houston, Texas

We have audited the accompanying statement of financial condition of STERLING SMITH CORPORATION as of December 31, 2009, and the related statements of income, 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 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 STERLING SMITH CORPORATION at December 31, 2009, 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.

*Easley Endres Parkhill & Brackendorff, P.C.*

Houston, Texas

STERLING SMITH CORPORATION  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2009

ASSETS

Cash and cash equivalents, unrestricted	\$ 192,957
Cash on deposit with clearing broker	5,469
Accounts receivable, commissions	368
Securities, at market value	2,419,450
Securities on deposit with clearing broker, at market value	<u>265,115</u>
Total securities	<u>2,684,565</u>
TOTAL ASSETS	<u><u>\$ 2,883,359</u></u>

LIABILITIES AND STOCKHOLDER'S EQUITY

LIABILITIES

Accounts payable	<u>\$ 6,404</u>
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STOCKHOLDER'S EQUITY

Common stock with par value of \$.01 per share, 50,000,000 shares authorized, 100,000 issued and outstanding	1,000
Additional paid-in capital	212,000
Retained earnings	<u>2,663,955</u>
TOTAL STOCKHOLDER'S EQUITY	<u>2,876,955</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u><u>\$ 2,883,359</u></u>

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

STERLING SMITH CORPORATION  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2009

REVENUES

Gains on firm securities trading	\$ 4,718,386
Commissions	22,081
Interest	<u>197,596</u>
 TOTAL REVENUES	 <u>4,938,063</u>

EXPENSES

Commissions and associate fees	3,779,136
Office and other operating expenses	<u>426,380</u>
 TOTAL EXPENSES	 <u>4,205,516</u>

NET INCOME	<u>\$ 732,547</u>
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The accompanying notes are an integral  
part of the financial statements.

STERLING SMITH CORPORATION  
STATEMENT OF STOCKHOLDER'S EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
BALANCE, DECEMBER 31, 2008	\$ 1,000	\$ 212,000	\$ 2,331,408	\$ 2,544,408
Dividends paid to stockholder	-	-	(400,000)	(400,000)
Net income	-	-	732,547	732,547
BALANCE, DECEMBER 31, 2009	<u>\$ 1,000</u>	<u>\$ 212,000</u>	<u>\$ 2,663,955</u>	<u>\$ 2,876,955</u>

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

STERLING SMITH CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 732,547
Adjustments to reconcile net income to net cash provided by operating activities:	
Changes in working capital:	
(Increase) decrease in cash related to changes in assets:	
Accounts receivable and deposits	(2,355)
Securities	(408,952)
Increase (decrease) in cash related to changes in liabilities:	
Accounts payable	<u>(2,115)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>319,125</u>
CASH FLOWS FROM INVESTING ACTIVITIES	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Dividends to stockholder	<u>(400,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(80,875)
CASH AND CASH EQUIVALENTS, beginning of year*	<u>273,832</u>
CASH AND CASH EQUIVALENTS, end of year*	<u><u>\$ 192,957</u></u>
 INTEREST PAID	 <u><u>\$ -</u></u>
TAXES PAID	<u><u>\$ -</u></u>

\* Amounts do not include cash and securities on deposit with clearing broker.

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

STERLING SMITH CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

STERLING SMITH CORPORATION, a Texas corporation, (the "Company"), was formed on January 25, 1995. The Company was formed for the purpose of conducting business as a broker/dealer in securities. The Company is registered with the Securities and Exchange Commission ("SEC") as a broker/dealer in securities under the Securities Exchange Act of 1934 and the Financial Industry Regulatory Authority ("FINRA"). The Company clears its proprietary and customer transactions through another broker-dealer on a fully disclosed basis.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Company considers cash and highly liquid investments with maturities of three months or less when purchased to be cash and cash equivalents.

Marketable Securities

Marketable securities owned and on deposit with the Company's clearing broker are recorded at market value based on quoted market prices from national exchanges as of the balance sheet date. The difference between cost and market value is included in income.

Securities Transactions

Proprietary securities transactions are recorded on a trade date basis. Profit and losses arising from all securities transactions entered into for the account and risk of the Company are recorded on a trade date basis. Accounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded in the statement of financial condition.

Marketable securities, including derivative financial instruments, are recorded at market value based on the closing price on nationally traded exchanges at the balance sheet date. Securities not readily marketable are valued at fair value as determined by management. As of year end, there were no positions open on derivative financial instruments.

STERLING SMITH CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Revenue Recognition

The Company's revenues are earned primarily from the sale of trading securities to customers. Revenues are recognized as securities are sold, on a trade date basis. The Company's revenue from brokerage commissions is recorded on the settlement date.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal corporate income taxes on its taxable income. Instead, the stockholder is liable individually for federal income taxes arising from the Company's income. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

Beginning January 1, 2007, the Company became subject to the Texas Gross Margin Tax. The Texas Gross Margin Tax generally is calculated as one percent of gross margin, as defined.

Use of Estimates

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 support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Transactions

As an agent, in the normal course of business, the Company enters into securities transactions which are denominated in foreign currencies, primarily the Mexican peso. Realized and unrealized foreign currency gains and losses on such transactions are recorded in income in the period they are incurred. There was no net realized and unrealized foreign currency losses recorded in 2009. For the purposes of reporting cash flows, the Company has determined that the effect of exchange rate changes on foreign currency transactions is immaterial.

STERLING SMITH CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 2: FEES PAID TO AFFILIATE

The Company pays an office service fee to an affiliated corporation commonly owned by the stockholder. For the year ended December 31, 2009, this fee was \$405,000.

NOTE 3: 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 of \$100,000 (including subordinated indebtedness) and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. The Company is currently in compliance with these requirements.

NOTE 4: SECURITIES

The Company's marketable securities as of December 31, 2009 are summarized as follows:

Description	Fair value
Corporate bonds, \$2,375,000 par value	\$ 2,234,065
Detachable warrants, Republic of Venezuela, 17,000 shares (no par value)	450,500
Total securities	<u>\$ 2,684,565</u>
Bond maturities as follows	
Less than one year	\$ 310,323
More than one year and up to ten years	1,398,606
Over ten years	525,136
Total maturities	<u>\$ 2,234,065</u>

The Company adopted FASB Accounting Standards Codification Topic 820-10, "Fair Value Measurements", effective January 1, 2008 for all financial assets and liabilities. ASC 820-10 provides standards and disclosures for assets and liabilities that are measured and reported at fair value. As defined in ASC 820-10, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). ASC 820-10 requires disclosure that establishes a framework for measuring fair value and

STERLING SMITH CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 4: SECURITIES (*Continued*)

expands disclosure about fair value measurements. The statement requires fair value measurements be classified and disclosed in one of the following categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Measured based upon inputs that are observable, either directly or indirectly, for the asset or liability other than quoted market prices included in Level 1. These inputs include: a) quoted prices for similar asset or liabilities in active markets b) quoted prices for identical or similar assets or liabilities in markets that are not active c) inputs other than quoted market prices that are observable and d) inputs that are derived primarily from or corroborated by observable market data by correlation or other means.

Level 3: Measured based on unobservable inputs for the asset or liability for which there is little, if any, market activity for the asset or liability at the measurement date. This input includes management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include management's own data.

As required by ASC 820-10, financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The following table summarizes the valuation of the Company's financial instruments by ASC 820-10 pricing levels as of December 31, 2009:

STERLING SMITH CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 4: SECURITIES *(Continued)*

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Unobservable Inputs (Level 3)	Fair value at December 31, 2009
Corporate bonds	\$ 980,629	\$ 1,253,436	\$ -	\$ 2,234,065
Detachable warrants	450,500	-	-	450,500
<b>Total</b>	<b>\$ 1,431,129</b>	<b>\$ 1,253,436</b>	<b>\$ -</b>	<b>\$ 2,684,565</b>

The following table sets forth a reconciliation in the fair value of securities classified as level 3 in the fair value hierarchy:

Level 3 securities, December 31, 2008	\$ 18,000
Total gains	13,000
Settlements	(31,000)
Purchases	-
	<hr/>
Level 3 securities, December 31, 2009	<u>\$ -</u>

NOTE 5: CONCENTRATIONS

The Company's business consists primarily of trading fixed income securities of non-U.S. issuers, which generally have higher yields than U.S. issuers. Management believes that current economic conditions are conducive for continued demand for these securities and the Company's services.

The Company engages in trading and maintains securities in which counter-parties include other broker-dealers and financial institutions. In the event the counter-parties do not fulfill their obligations, the Company may be exposed to certain risks. It is the policy of the Company to consider the creditworthiness of each counter-party, as necessary.

STERLING SMITH CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 6: SUBORDINATED LIABILITIES

The company had no subordinated liabilities at any time during the year ended December 31, 2009. Therefore, the statement of changes in liabilities subordinated to claims of general creditors has not been presented for the year ended December 31, 2009.

NOTE 7: SUBSEQUENT EVENTS

The Company evaluated the period from January 1, 2010 to February 12, 2010, the date of the audit report, and noted no significant subsequent events.

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SUPPLEMENTAL  
INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION REQUIRED  
BY RULE 17A-5 OF THE SECURITIES AND EXCHANGE COMMISSION

February 12, 2010

Board of Directors  
STERLING SMITH CORPORATION  
Houston, Texas

We have audited the accompanying financial statements of STERLING SMITH CORPORATION as of and for the year ended December 31, 2009, and have issued our report thereon dated February 12, 2010. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in these 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.

*Easley Endres Parkhill & Brackendorff, P.C.*

STERLING SMITH CORPORATION  
COMPUTATION OF NET CAPITAL UNDER RULE ATC3-1 OF THE  
SECURITIES AND EXCHANGE COMMISSION

DECEMBER 31, 2009

Net capital computation:

Stockholder's equity	\$ 2,876,955
Unallowable securities	(468,936)
Haircuts on marketable securities, including concentrations	<u>(132,434)</u>
Net capital pursuant to SEC Rule 15c3-1	2,275,585
Net capital required	<u>(100,000)</u>
Excess capital	<u>\$ 2,175,585</u>

Net capital required based on leverage:

Aggregate indebtedness	<u>\$ 6,404</u>
Total capital required based on 6 2/3% of liabilities	<u>\$ 427</u>

Under its current agreement with the FINRA, the Company is required to maintain net capital of \$100,000.

STATEMENT PURSUANT TO PARAGRAPH (d)(4) OF RULE 17a-5

There is no difference between this computation of net capital pursuant to Rule 15c3-1 and the corresponding computation prepared by Sterling Smith Corporation and included in the Company's unaudited Part II A FOCUS report filing as of December 31, 2009.

STATEMENT OF OMITTED SUPPLEMENTAL DATA

The Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 and the Information Relating to Possession or Control Requirements Under Rule 15c3-3 have been omitted because Sterling Smith Corporation is exempt from the requirements of Rule 15c3-3 under condition (k)(2)(ii) by clearing all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer. The conditions of the exemption were being complied with as of December 31, 2009 and no facts came to our attention to indicate that the exemption had not been complied with during the fiscal year ended December 31, 2009.

See accompanying auditors' report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

February 12, 2010

Mr. Sterling Smith  
STERLING SMITH CORPORATION  
Houston, Texas

In planning and performing our audit of the financial statements and supplemental schedules of STERLING SMITH CORPORATION (the "Company") as of and for the year ended December 31, 2009, 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 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 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 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 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 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.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 Company's practices and procedures were adequate at December 31, 2008, 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.

*Easley Endres Parkhill & Brackendorff, P.C.*

February 12, 2010

Mr. Sterling Smith  
STERLING SMITH CORPORATION  
Houston, Texas

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments [Transitional Assessment Reconciliation (Form SIPC-7T)] to the Securities Investor Protection Corporation (SIPC) for the nine months ended December 31, 2009, which were agreed to by Sterling Smith Corporation ("the Company") and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating the Company's compliance with the applicable instructions of the Transitional Assessment Reconciliation (Form SIPC-7T). The Company's management is responsible for The Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7T with respective cash disbursements record entries, check copies, and bank statements noting no differences;
2. Reconciled the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2009 less amounts reported on the Focus reports for the period from January 1, 2009 to March 31, 2009, as applicable, with the amounts reported in Form SIPC-7T for the nine months ended December 31, 2009, noting no differences.
3. Compared any adjustments reported in Form SIPC-7T with supporting schedules and working papers noting no differences; and
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7T and in the related schedules and working papers supporting the adjustments noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express

such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

*Earley Encher Parkhill & Brackendorf, P.C.*

Houston, Texas  
February 12, 2010

Transitional Assessment Reconciliation

(Read carefully the instructions in your Working Copy before completing this Form)

TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

048058 FINRA DEC  
STERLING SMITH CORPORATION 15-15  
4326A SCOTLAND ST  
HOUSTON TX 77007-7328

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

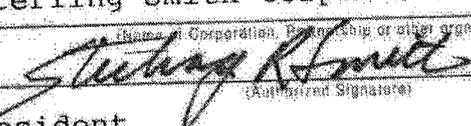
Name and telephone number of person to contact respecting this form.

2. A. General Assessment [Item 2e from page 2 (not less than \$150 minimum)]	\$ 10,152.59
B. Less payment made with SIPC-6 filed including \$150 paid with 2009 SIPC-4 (exclude interest)	( 1,646.29 )
<u>7/10/09</u> Date Paid	0
C. Less prior overpayment applied	( 8,506.30 )
D. Assessment balance due or (overpayment)	0
E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum	0
F. Total assessment balance and interest due (or overpayment carried forward)	\$ 8,506.30
G. PAID WITH THIS FORM: Check enclosed, payable to SIPC Total (must be same as F above)	\$ 8,506.30
H. Overpayment carried forward	\$( 0 )

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Sterling Smith Corporation

*(Name of Corporation, Partnership or other organization)*  
  
(Authorized Signatory)

President

(Title)

Dated the 26 day of January, 20 10

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER

Dates:	<u>Postmarked</u>	<u>Received</u>	<u>Reviewed</u>	
Calculations	_____	_____	Documentation _____	Forward Copy _____
Exceptions:	_____			
Disposition of exceptions:	_____			

**DETERMINATION OF "SIPC NET OPERATING REVENUES"  
AND GENERAL ASSESSMENT**

Amounts for the fiscal period  
beginning April 1, 2009  
and ending 12/31, 2009  
Eliminate cents

Item No.		
2a.	Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)	\$ 4,627,225
2b.	Additions:	
	(1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.	0
	(2) Net loss from principal transactions in securities in trading accounts.	0
	(3) Net loss from principal transactions in commodities in trading accounts.	0
	(4) Interest and dividend expense deducted in determining Item 2a.	0
	(5) Net loss from management of or participation in the underwriting or distribution of securities.	0
	(6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.	0
	(7) Net loss from securities in investment accounts.	0
	Total additions	0
2c.	Deductions:	
	(1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.	0
	(2) Revenues from commodity transactions.	0
	(3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.	99,975
	(4) Reimbursements for postage in connection with proxy solicitation.	0
	(5) Net gain from securities in investment accounts.	466,212
	(6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.	0
	(7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).	0
	(8) Other revenue not related either directly or indirectly to the securities business. (See Instruction G)	0
	(9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income.	\$ 0
	(ii) 40% of interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).	\$ 0
	Enter the greater of line (i) or (ii)	0
	Total deductions	566,187
1.	SIPC Net Operating Revenues	\$ 4,061,038
	General Assessment @ .0025	\$ 10,152.59

(to page 1 but not less than \$150 minimum)

Sterling Smith Corporation

December 31, 2009

***Financial Statements***

EASLEY, ENDRES, PARKHILL  
& BRACKENDORFF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS