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

**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

OMB APPROVAL
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8-50151

REPORT FOR THE PERIOD BEGINNING 01-Jan-10 AND ENDING 31-Dec-10

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Smith Asset Management Inc.** 10-015541-c5

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

OFFICIAL USE ONLY
FIRM I.D. NO.

111 Broadway- Suite 808

(No. and Street)

New York
(City)

NY
(State)

10006
(Zip Code)

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

William Smith

212-812-9330

(Area code- Telephone number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Donahue Associates, LLC

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

27 Beach Road- Suite C05A
(Address)

Monmouth Beach
(City)

NJ
(State)

07750
(Zip code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

FOR OFFICIAL USE ONLY

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

SEC 1410 (06-02)

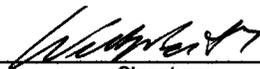
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information contained in this form are not required to respond
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OATH OR AFFIRMATION

I, William 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 Smith Asset Management Inc., as of December 31, 2010, are true and correct, I further swear (or affirm) that neither 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:



 Signature


 Title



 Notary Public

LAUREN MATTERA
 Notary Public, State of New York
 No. 01MA6208881
 Qualified in Richmond County
 Commission Expires. July 13, 2013

This report ** contains (check 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 the Claims of Creditors
- (g) Computation of Net Capital(including reconciliation of X-17A-5 Part II filing with this Rule 17a-5(d) report, if applicable)
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3
- (i) Information relating to the Possession of Control Requirements Under Rule 15c3-3
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for determination of the Reserve Requirements Under Exhibit A of rule 15c3-3.
- (k) A Reconciliation between the audited and the unaudited Statements of Financial Condition with respect to the 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).

DONAHUE ASSOCIATES, L.L.C.
27 BEACH ROAD, SUITE CO5-A
MONMOUTH BEACH, NJ. 07750
Phone: (732) 229-7723

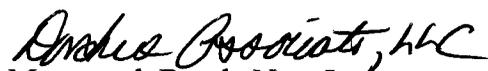
Independent Auditor's Report

The Shareholder
Smith Asset Management Inc.

We have audited the accompanying balance sheet of Smith Asset Management Inc. as of December 31, 2010 and the related statement of operations and changes in shareholder's equity, and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 presented 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 the 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 Smith Asset Management Inc. as of December 31, 2010 and the related statement of operations and changes in shareholder's equity, and cash flows for the year then ended in conformity with generally accepted accounting principles generally accepted in the United States of America.


Monmouth Beach, New Jersey
February 7, 2011

Smith Asset Management Inc.
Balance Sheet
As of December 31, 2010

ASSETS

Current assets:

Cash & cash equivalents	\$17,085
Due from clearing broker	<u>52,396</u>
Total Current Assets	\$69,481

Other asset:

Security deposit	<u>11,793</u>
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Total Assets	<u><u>\$81,274</u></u>
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LIABILITIES & SHAREHOLDER'S EQUITY

Current liabilities:

Accounts payable & accrued expenses	\$38,707
Due to related party	<u>11,555</u>
Total Current Liabilities	\$50,262

Shareholder's Equity:

Common stock: 200 shares authorized, stated value \$1 200 shares issued and outstanding	\$200
Additional paid in capital	253,541
Retained deficit	<u>(222,729)</u>
Shareholder's equity	<u>31,012</u>

Total Liabilities & Shareholder's Equity	<u><u>\$81,274</u></u>
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Please see the notes to the financial statements.

Smith Asset Management Inc.
Statement of Operations
For the Year Ended December 31, 2010

Revenues	\$1,032,353
Clearing fees and commission expenses	<u>(656,969)</u>
Gross margin	\$375,384
General and administrative expenses:	
Salary & payroll tax expense	\$264,347
Rent expense	43,856
Professional fees	9,568
Insurance expense	30,484
General administration	<u>63,045</u>
Total general and administrative expenses	<u>411,300</u>
Loss from operations	(\$35,916)
Other income:	
Interest income	<u>3,868</u>
Net loss before income tax provision	(\$32,048)
Provision for income taxes	<u>0</u>
Net loss	<u><u>(\$32,048)</u></u>

Please see the notes to the financial statements.

Smith Asset Management Inc.
Statement of Cash Flows
For the Year Ended December 31, 2010

Operating activities:	
Net loss	(\$32,048)
Changes in other operating assets and liabilities:	
Due from clearing broker	(260)
Accounts payable & accrued expenses	<u>(8,407)</u>
Net cash used by operations	(\$40,715)
Financing activities:	
Due to related party	<u>\$28,954</u>
Net cash provided by financing activities	\$28,954
Net decrease in cash during the fiscal year	(\$11,761)
Cash at December 31, 2009	<u>28,846</u>
Cash at December 31, 2010	<u><u>\$17,085</u></u>
Supplemental disclosures of cash flow information:	
Interest paid during the fiscal year	\$0
Income taxes paid during the fiscal year	\$500

Please see the notes to the financial statements.

Smith Asset Management Inc.
Statement of Changes in Shareholder's Equity
For the Year Ended December 31, 2010

	Common Shares	Common Value	Paid in Capital	Retained Deficit	Total Equity
Balance at December 31, 2009	200	\$200	\$253,541	(\$190,681)	\$63,060
Net loss for the fiscal year	_____	_____	_____	(32,048)	(32,048)
Balance at December 31, 2010	<u>200</u>	<u>\$200</u>	<u>\$253,541</u>	<u>(\$222,729)</u>	<u>\$31,012</u>

Please see the notes to the financial statements.

**Smith Asset Management Inc.
Notes to the Financial Statements
For the Year Ended December 31, 2010**

1. Organization

Smith Asset Management Inc. (the Company) is a privately held corporation formed for the purpose of conducting business as a securities broker dealer (BD). As s a BD, the Company is a member of the Financial Industry Regulatory Authority (FINRA) registered to market investments in debt, equities, and mutual funds.

2. Summary of Significant Accounting Policies

Use of Estimates- The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses at the date of the financial statements and for the period they include. Actual results may differ from these estimates.

Revenues- Revenues and related fees are recorded on a trade date basis and when all contracted services have been provided by the Company and the Company is reasonably assured of their collection.

Cash and cash equivalents- For the purpose of calculating changes in cash flows, cash includes all cash balances and highly liquid short-term investments with original maturity date of three months or less.

Income taxes- The Company has elected to be taxed as an S corporation under the Internal Revenue Service Code. Accordingly, under such an election, the Company's federal and state taxable income is reported by the individual shareholder and therefore, no provision for these federal income taxes has been included in the financial statements.

3. Fair Value of Financial Instruments

Cash and cash equivalents, due from clearing broker, receivable from related party, security deposit, and accounts payable and accrued expenses in the balance sheet are estimated to approximate fair market value at December 31, 2010.

4. Commitments and Contingencies

The Company is committed to a non-cancelable lease for office space in New York City. The minimum payments due under the lease are as follows.

2011	\$97,068
2012	104,412
2013	111,972
2014	115,122
Thereafter	<u>301,782</u>
Net minimum lease payments	<u>\$730,356</u>

5. Related Party Transaction

In July 2008, the Company entered into an expense sharing agreement with a company related to the Company by through common ownership. The agreement calls for the Company to be responsible for certain expenses directly related to its operations as a BD and for the contracted portion of those expenses deemed to be shared as per the agreement. As of December 31, 2010, the Company had payables outstanding to the related company of \$11,555.

6. Net Capital Requirement

As a BD, the Company is subject to Rule 15c3-1 of the Security Exchange Act of 1934 which requires the Company to maintain a minimum net capital, as defined under the provisions, of \$5,000. The computation of net capital pursuant to Uniform Net Capital Rule 15c3-1 is as follows.

CREDIT:	
Shareholder's equity	\$31,012
DEBITS:	
Non-allowable assets:	
Security deposit	<u>(11,793)</u>
NET CAPITAL	\$19,219
Less other deductions	<u>5,000</u>
ADJUSTED NET CAPITAL	\$14,219
Minimum requirements of 6-2/3% of aggregate indebtedness or \$5,000, whichever is greater.	<u>5,000</u>
EXCESS NET CAPITAL	<u><u>\$9,219</u></u>
AGGREGATE INDEBTEDNESS:	\$50,262
AGGREGATE INDEBTEDNESS TO NET CAPITAL	261.52%
Excess net capital previously reported	\$9,219
Less adjustments	<u>0</u>
Excess net capital per audited report	<u><u>\$9,219</u></u>

7. Off Balance Sheet Risk

The Company executes various transactions for the benefit of customers through the clearing broker on a fully disclosed basis. This business activity subjects the Company to certain off balance sheet risk, which may be in excess of the liabilities reported in the balance sheet. In the event that a customer is in default of an obligation to the clearing broker, the clearing broker will require the Company to fulfill the obligation on behalf of its customer. This exposes the company to credit risk.

The Company seeks to control this risk by monitoring the transactions of customer accounts on a real time basis. The Company has the authority to liquidate customer positions at its discretion in order to ensure the account does not expose the Company to an unacceptable level of credit risk.

8. Concentrations of Credit Risk

The Company has a \$50,000 on deposit with the clearing broker that secures transactions between the Company and the clearing broker. This deposit is not insured.

9. Subsequent Events

The Company has made a review of material subsequent events from December 31, 2010 through the date of this report and found no material subsequent events reportable during this period.

9

DONAHUE ASSOCIATES, L.L.C.
27 BEACH ROAD, SUITE CO5-A
MONMOUTH BEACH, NJ. 07750
Phone: (732) 229-7723

The Shareholder
Smith Asset Management Inc.

In planning and performing our audit of the financial statements of Smith Asset Management Inc. for the year ended December 31, 2010, we considered its internal control structure, including procedures for safeguarding customer and firm assets, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Company that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11); and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3; and for safeguarding the occasional receipt of securities and cash until promptly remitted to the Company's clearing brokers. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications and comparisons, and the recordation of differences required by Rule 17a-13 or 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, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities. The Company claims an exemption from SEC Rule 15c3-3 under the (k)(2)(i) provision, and therefore, no computation for determination of reserve requirements was necessary.

The management of the Corporation is responsible for establishing and maintaining an internal control structure 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 internal control structure policies and procedures 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 Commission's above mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that the assets for which the Corporation 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 in the United States. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of the inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities 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 changing conditions or the effectiveness of their design may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure 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 of the specific internal control structure elements does not reduce to a relatively low level of risk that the errors or irregularities in material amounts in relation to the financial statements taken as a whole may occur and not be detected within a timely period by the employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure that we considered to be a material weakness as defined above.

We understand that the internal control structure that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that an internal control structure that does not accomplish such objectives in all material respects indicate material inadequacy for such purposes. Based on this understanding and our study, we believe the Company's practices and procedures were adequate as of December 31, 2010 to meet the Commission's objectives.

In addition, our review indicated the Company to be in compliance with the conditions of exemption from Rule 15c3-3 pursuant to paragraph k(2)(i) as of December 31, 2009, and no facts came to our attention to indicate such conditions had not been complied with during the year.

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 assessments and payments to the Security Investor Protection Corporation (SIPC) for the year ended December 31, 2010 in order to assist you and interested third parties in evaluating the Company's compliance with applicable instructions of the Transitional Assessment Reconciliation (Form SIPC-7T). The Company is responsible for compliance with these requirements. These agreed-upon procedures were 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 the 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 of for any other purpose. The procedures performed and our findings are as follows.

1. We compared the listed assessment payments in Form SIPC-7T with respective cash disbursement records entries in the general ledger noting no differences.
2. We compared amounts reported on the audited Form X-17A-5 for the year ended December 31, 2010, as applicable, with the amounts reported in Form SIPC-7T for the year ended December 31, 2010 and noted no differences.
3. We compared any adjustments reported in Form SIPC-7T with supporting schedules and other working papers and noted no differences.
4. We proved the arithmetic accuracy of the calculations reflected in Form SIPC-7T and the related schedules supporting the adjustments and noted no differences.
5. We compared the amount of any overpayment applied to the current assessment with the Form SIP-7T on which it was originally computed and noted no differences.

With regard to the SIPC fee assessment testing, 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.


Monmouth Beach, N.J.
February 7, 2011