djlaptopCrimson1. How did Neo defeat agent Smith?
Um, he and Trinity flew to the machine city (01) and Neo spoke to the Deus Ex Machina which was this big machine with a face made of sentinel-like things. He told them that Smith would destroy the Matrix and only he (Neo) could stop it. The machines agreed to end the war if Neo succeeded. He was jacked in by the machines and met up with Smith who had inhabited pretty much every single person/program in the Matrix, up to and including the Oracle. They got into a huge brawl spanning city streets, abandoned buildings, and zero gravity. Finally Neo succumbs to Smith and Smith infects him. The machines read the virus/Smith code and quickly determine how to destroy it/him and all the Smiths explode in white light and become the people they once were. I'm basing some of this on my interpretations.

I interpreted this slightly differently. The machines knew that if Smith was not stopped, he would spread into ALL machines, not just the matrix. Kinda like if you have a firewall, but some motherfu(%#er with a laptop plugs into your LAN and infects your whole network with msblast. Once Neo was no longer standing in his way, Smith would essentially destroy both worlds.

This doesn't make much sense, as I don't think that realistically machines would care about that. They have no motivations other than survival, and the overwriting of their "firmware" by Smith doesn't affect their survival at all.

Anyhow, Neo defeated Smith by not defeating him. He realized that beating Smith wouldn't help, because there are a zillion other Smiths. The Oracle told Neo that Smith is his opposite - he is the equasion attempting to balance itself out. Recall that when Smith takes over a body, he becomes the sum of himself and that body, which is how he was able to know about Sati's cookie conversation, and the Oracle's "everything that has a beginning has an end" speech. Basic math tells us that the sum of anything and its opposite is 0. By taking over Neo, he became 0, which allowed the machines to finally remove him from the equasion.

I believe your theory is correct, but inaccurate. Smith was what made the equation balanced. By removing Neo, he unbalanced it. The Architecht (sp?) said that he balanced all equations, since he couldn't create a flaw to balance the equation (remembering that the One wasn't something that was created on purpose, it was an anomily), it meant that he had to delete the equation altogether. Delete Smith.