



STATES
CHANGE COMMISSION
D.C. 20549

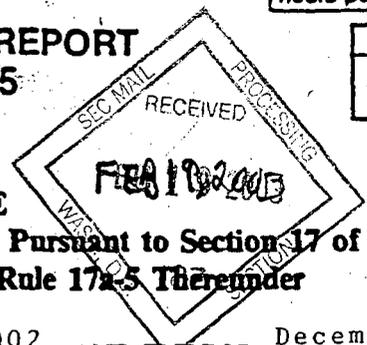
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CREDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER
8 11259



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 January 1, 2002 AND ENDING December 31, 2002
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: William H. Sherman

DBA: Sherman & Co.

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
15 Westminster Street Suite 637

Providence RI 02903
(City) (State) (Zip Code)

NAME AND PHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
William H. Sherman (401) 421-0644
(Area Code - Telephone No.)

11-003357-B
SHERMAN & CO.
WILLIAM H. SHERMAN
15 WESTMINSTER ST.,
PROVIDENCE, RI 02903
AUD

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Rosenstein, Halper & Maselli, LLP

27 Dryden Lane Providence, RI 02904
(Address) (City) (State) (Zip Code)

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

PROCESSED
MAR 10 2003
THOMSON FINANCIAL

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).

DBS-10

OATH OR AFFIRMATION

I, William H Sherman, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Sherman & Co., as of December 31, 19 2002, 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:

William H Sherman
Signature
PROPRIETOR
Title

Dan S. Helger
Notary Public

TERM EXPIRES 1/16/05

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 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).

SHERMAN & CO.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2002

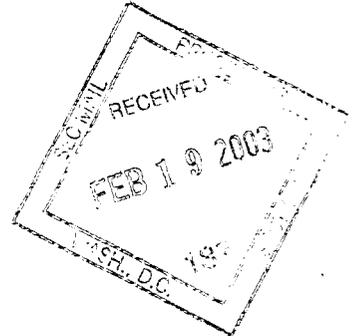


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ROSENSTEIN, HALPER & MASELLI, LLP

Certified Public Accountants

27 DRYDEN LANE
PROVIDENCE, RHODE ISLAND 02904
(401) 331-6851 FAX: (401) 331-6853

*Jay N. Rosenstein, CPA, MBA
Frank G. Halper, CPA, MST, PFS
Thomas D. Maselli, CPA*

Independent Auditor's Report

William Sherman, Proprietor
Sherman & Co.
Providence, Rhode Island

We have audited the accompanying statement of financial condition of Sherman & Co. (a proprietorship) as of December 31, 2002 and the related statements of income and proprietor's capital, 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 Proprietor'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.

The financial statements have been prepared solely from the accounts of Sherman & Co. and do not include the personal accounts of the owner or those of any other operation in which he is engaged.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sherman & Co. as of December 31, 2002 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 supplementary information 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.

Rosenstein, Halper & Maselli, LLP

January 13, 2003

SHERMAN & CO.

STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2002

ASSETS

Cash, including customer segregated deposits of \$51,641	\$ 53,908
Due from brokers	16,200
Marketable securities	213,590
Furniture and fixtures, net of accumulated depreciation of \$4,454	<u> -</u>
Total assets	<u>\$283,698</u>

LIABILITIES AND PROPRIETOR'S CAPITAL

Liabilities	
Due to brokers	\$ 4,400
Accrued expenses	<u> 56</u>
Total liabilities	4,456
Proprietor's capital	<u>279,242</u>
Total liabilities and proprietor's capital	<u>\$283,698</u>

The accompanying notes are an integral part of the financial statements

SHERMAN & CO.

STATEMENT OF INCOME AND PROPRIETOR'S CAPITAL

YEAR ENDED DECEMBER 31, 2002

REVENUE	
Commissions	\$144,223
Dividends	<u>2,045</u>
Total revenues	<u>146,268</u>
EXPENSES	
Advertising	12,551
Automobile expense	8,930
Bank service charges	1,863
Collection charges	3,806
Entertainment	18,918
Insurance	828
Interest	68
Membership and licenses	1,734
Office supplies and expenses	5,854
Postage	16,966
Payroll taxes	1,730
Professional fees	3,300
Property taxes	148
Publications	12,608
Rent and light	10,618
Salaries	18,954
Telephone	<u>3,786</u>
Total expenses	<u>122,662</u>
NET INCOME	23,606
PROPRIETOR'S CAPITAL, BEGINNING OF YEAR	<u>278,658</u>
WITHDRAWALS FROM CAPITAL	302,264
	<u>23,022</u>
PROPRIETOR'S CAPITAL, END OF YEAR	<u>\$279,242</u>

The accompanying notes are an integral part of the financial statements

SHERMAN & CO.

STATEMENT CASH FLOWS

YEAR ENDED DECEMBER 31, 2002

Increase (decrease) in cash

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ <u>23,606</u>
Adjustments to reconcile net income to cash provided by operating activities:	
Changes in operating assets and liabilities:	
Increase in due from brokers	(16,200)
Decrease in due to brokers	(220,665)
Purchase of marketable securities	(2,045)
Decrease in due from customers	<u>220,305</u>
Total adjustments	<u>(18,605)</u>
CASH PROVIDED BY OPERATING ACTIVITIES	<u>5,001</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Withdrawals from capital	<u>(23,022)</u>
DECREASE IN CASH	(18,021)
CASH, BEGINNING OF YEAR	<u>71,929</u>
CASH, ENDING OF YEAR	\$ <u>53,908</u>

The accompanying notes are an integral part of the financial statements

SHERMAN & CO.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2002

1. **Summary of significant accounting policies**

Principal business activity

The proprietorship operates as a brokerage firm, buying and selling securities for the benefit of customers.

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.

Cash - customer segregated deposits

All customer security transactions are reflected through the cash - segregated for benefit of customers account. The funds are restricted for the benefit of customers.

Marketable securities

Marketable securities are recorded at fair market value, which equals cost.

Property and equipment and depreciation method

Property and equipment is stated at cost. Depreciation is being provided by use of an accelerated method over the estimated useful lives of the related assets.

Income Taxes

The financial statements do not include a provision for income taxes because the Proprietorship does not incur federal or state income taxes. Instead, income from the proprietorship is reflected on the individual tax return of the proprietor.

Revenue recognition

Customers' securities transactions and related commission income and expenses are recorded on a trade date basis.

SHERMAN & CO.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2002

2. **Marketable securities**

Marketable securities consist of an investment in a mutual fund that invests in state and municipal government obligations.

3. **Net capital requirements**

As a registered broker-dealer, Sherman & Co. is subject to the requirements of Rule 15c3-1 (the "net capital rule") under the Securities Exchange Act of 1934. The basic concept of the rule is liquidity, its object being to require a broker-dealer to have at all times sufficient liquid assets to cover his current indebtedness. Specifically, the rule prohibits a broker-dealer from permitting his "aggregate indebtedness" from exceeding fifteen times his "net capital" as those terms are defined. On December 31, 2002, Sherman & Co.'s aggregate indebtedness and net capital, as defined, were \$4,456 and \$264,291, respectively, a ratio of .02 to 1.

Sherman & Co.'s required net capital is \$100,000. Sherman & Co. has at all times during the past year been in compliance with the net capital rule of the SEC and its ratio of aggregate indebtedness to net capital has not exceeded .36%. A copy of the financial report Part II on Form X-17 a-51 filed with the National Association of Securities Dealers, Inc., is available for inspection and copying at the office of Sherman & Co. and the principal office of NASD in Washington, D.C., and the regional office of the Securities and Exchange Commission in Boston, Massachusetts.

SUPPLEMENTARY INFORMATION

SHERMAN & CO.

COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE SECURITIES AND

EXCHANGE COMMISSION

DECEMBER 31, 2002

Net Capital	
Total proprietor's capital	\$279,242
Nonallowable assets:	
Furniture and fixtures	-
Haircuts on securities:	
(7% monthly balance)	
State and municipal government obligations	<u>(14,951)</u>
Net capital	<u>\$264,291</u>
Aggregate indebtedness	
Items included in statement of financial condition:	
Due to brokers and customers	<u>\$ 4,400</u>
Reconciliation with Company's computation	
Net capital-December 31, 2002 quarterly SEC Focus Report Form X-17a-5 submitted by client	\$264,232
Adjustments	<u>59</u>
Net capital per above	<u>\$264,291</u>