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

SEC FILE NUMBER
8- 12428

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 November 1, 2006 AND ENDING October 31, 2007
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: David Skarman & Company

OFFICIAL USE ONLY
FIRM I.D. NO.

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

500 Skokie Blvd. - Suite 525

(No. and Street)

Northbrook

Illinois

60062

(City)

(State)

(Zip Code)

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

Stuart L. Pinkert

(847) 509-1414

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Bernstein & Brown, P.C.

IL License #060-003509

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

333 Skokie Blvd - Suite 112

Northbrook,

Illinois

60062-1624

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

JAN 15 2008

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*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)

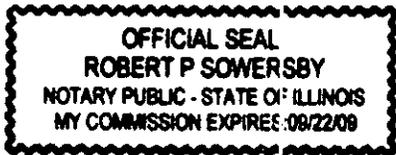
SEC 1410 (06-02)

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1/15/08

OATH OR AFFIRMATION

I, Stuart L. Pinkert, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of David Sherman & Company, as of October 31, 2007, 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:



Stuart L. Pinkert
Signature

PRESIDENT
Title

Robert P. Sowersby
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.

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

INDEPENDENT AUDITOR'S REPORT

DAVID SHERMAN & COMPANY

FOR THE YEAR ENDED OCTOBER 31, 2007

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BERNSTEIN & BROWN, P.C.
Certified Public Accountants and Consultants

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333 Skokie Blvd., Suite 112
Northbrook, Illinois 60062

**To the Shareholder and
Board of Directors**

DAVID SHERMAN & COMPANY
Northbrook, Illinois 60062

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of financial condition of DAVID SHERMAN & COMPANY, an S corporation, as of October 31, 2007, and the related statements of income and retained earnings and cash flows for the year then ended. 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 required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 DAVID SHERMAN & COMPANY, at October 31, 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In connection with our examination of the financial statements of DAVID SHERMAN & COMPANY, for the year ended October 31, 2007, we have also examined the accompanying statements and schedules:

Statement of Changes in Shareholder's Equity
Computation of Net Capital
Reconciliation Pursuant to Rule 17a-5 (d)(4)
Computation of Aggregated Indebtedness

The supplementary information, although not considered necessary for generally accepted accounting principles, however, in our opinion, such schedules present fairly the information required to be set forth therein, in conformity with the rules of the Securities and Exchange Commission.

Bernstein & Brown, P.C.

November 9, 2007



DAVID SHERMAN & COMPANY

Statement of Financial Condition

October 31, 2007

ASSETS

CURRENT ASSETS

Cash in bank	\$457,912	
Commissions receivable	17,497	
Broker rebate receivable	5,155	
	<u> </u>	
Total Current Assets		\$480,564

PROPERTY AND EQUIPMENT

Furniture and fixtures	\$20,712	
Less: Accumulated depreciation	20,712	
	<u> </u>	
Total Property and Equipment		0

OTHER ASSETS

Security deposit		<u>25,000</u>
Total Assets		<u><u>\$505,564</u></u>

LIABILITIES AND SHAREHOLDER'S EQUITY

LIABILITIES

Current Liabilities		
Broker clearance fees		\$3,610
State income taxes payable		<u>3,057</u>
Total Current Liabilities		\$6,667

SHAREHOLDER'S EQUITY

Capital stock		
8,000,000 shares common stock authorized; \$.03 par value; 250,000 shares issued and outstanding		\$7,500
Paid-in capital		109,558
Retained earnings, per accompanying statement		<u>381,839</u>
Total Shareholder's Equity		<u>498,897</u>

TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY \$505,564

The accompanying notes are an integral part of this statement.



Statement of Income and Retained Earnings

For the Year Ended October 31, 2007

REVENUE

Commissions	\$630,293
Administration fees	113,844
Consulting	15,075
Interest	18,381
Other income	35,000

Total Revenue \$812,593

EXPENSES

Clearance fees	\$66,760
Commissions	5,777
Employee compensation and related benefits	439,809
Occupancy and equipment	16,169
Other operating expenses	32,124
Profit sharing contribution	50,000

Total Expenses \$610,639

INCOME BEFORE INCOME TAXES \$201,954

INCOME TAXES

State income taxes 3,057

NET INCOME TO RETAINED EARNINGS \$198,897

RETAINED EARNINGS NOVEMBER 1, 2006 325,411

LESS: DISTRIBUTION TO SHAREHOLDER 142,469

RETAINED EARNINGS OCTOBER 31, 2007 \$381,839

The accompanying notes are an integral part of this statement.

**Statement of Cash Flows****For the Year Ended October 31, 2007****CASH FLOWS FROM OPERATING ACTIVITIES**

Net income	\$198,897
Changes in assets and liabilities	
Commissions receivable	13,984
Broker fees	(1,019)
Accounts payable	(2,770)
State income taxes payable	844

NET CASH FLOWS FROM OPERATING ACTIVITIES \$209,936**CASH FLOWS FROM FINANCING ACTIVITIES**

Dividends to shareholder	<u>(\$142,469)</u>
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NET CASH FLOWS FROM FINANCING ACTIVITIES (\$142,469)**NET INCREASE IN CASH** \$67,467**CASH AT BEGINNING OF YEAR** 390,445**CASH AT END OF YEAR** \$457,912**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION****INTEREST PAID IN CASH** \$0**INCOME TAXES PAID IN CASH** \$2,213

The accompanying notes are an integral part of this statement.



DAVID SHERMAN & COMPANY

Notes to the Financial Statements
October 31, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - DAVID SHERMAN & COMPANY is a registered security broker dealer.

Method of Accounting - The company utilizes the accrual method of accounting for all financial purposes.

Cash Equivalents - The company recognizes that cash and cash accounts with maturity dates of three months or less as cash equivalents in the financial statements. Cash includes all cash balances deposited with local financial institutions. At times such deposits may be in excess of the governmental insurance limit.

Securities Transactions - Securities transactions and related commission income and expense are recorded on the dates of the trade.

Property and Equipment - The property and equipment is stated at cost. Depreciation is computed over the useful life of the assets utilizing the straight-line method for book and financial statement purposes. For income tax purposes, the company utilized straight line and accelerated depreciation methods.

Retirement Plan - The company has a defined contribution profit sharing plan covering eligible employees.

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 disclosures 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 may differ from those estimates.

NOTE B: INCOME TAXES

The company has been approved by the Internal Revenue Service as an S Corporation for income tax purposes. As such, all profits and losses flow directly to the shareholder of the company. S Corporations are subject to state income taxes.



DAVID SHERMAN & COMPANY

Notes to the Financial Statements
October 31, 2007

NOTE C: RETIREMENT PLAN

The company has a defined contribution profit sharing plan covering eligible employees. Plan contributions are provided at the discretion of management. The contribution to the plan for the year ended October 31, 2007 aggregated \$50,000.

NOTE D: NET CAPITAL REQUIREMENTS

The company is a broker/dealer subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1). Under this rule, the company is required to maintain a "net capital" equivalent to \$5,000 effective as of July 19, 1998 or 6 2/3% of "aggregated indebtedness", whichever is greater, as these terms are defined.

Net capital and aggregated indebtedness change from day to day, but at October 31, 2007 the company had net capital of \$ 498,397 and net capital requirements of approximately \$5,000 respectively. The net capital rule may effectively restrict the payment of cash dividends.

NOTE E: COMMITMENTS

The company has entered into a sublease for office premises that aggregates an estimated monthly base rental of twenty (20) percent of the total rent payable pursuant to the lease of April 30, 2004 plus annual rental adjustments. The sublease expires on April 30, 2009.

Future estimated minimum rental payments are as follows:

Fiscal Year Ended October 31,:			
	2007	\$	13,433
	2008	\$	13,699
	2009 and thereafter	\$	6,916

NOTE F: CUSTOMER POSSESSION AND CONTROL

The company is exempt from the full requirement of SEC Rule 15c3-3 as no customer's funds or securities are held or under the control of the broker dealer.

SUPPLEMENTARY INFORMATION



DAVID SHERMAN & COMPANY

Statement of Changes in Shareholder's Equity

For the Year Ended October 31, 2007

	<u>Common Stock</u>	<u>Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance - November 1, 2006	\$7,500	\$109,558	\$325,411	\$442,469
Net Income (Schedule)			198,897	198,897
Distribution to shareholder			(142,469)	(142,469)
Balance - October 31, 2007	<u>\$7,500</u>	<u>\$109,558</u>	<u>\$381,839</u>	<u>\$498,897</u>

See Accountant's Report

DAVID SHERMAN & COMPANY

Computation of Net Capital

For the Year Ended October 31, 2007

Total shareholder's equity from statement of financial condition	<u>\$498,897</u>
Net Capital	<u><u>\$498,897</u></u>
Minimum net capital requirements (6 2/3% X \$ 6,667)	\$444
Minimum dollar net capital requirement	\$5,000
Minimum requirement	\$5,000
Excess net capital	\$493,897
Excess net capital at 1000%	\$498,230
Total aggregated indebtedness	\$6,667
Net capital	\$498,897
Percentage of aggregate indebtedness to net capital	1.3%

See Accountant's Report



DAVID SHERMAN & COMPANY

Reconciliation Pursuant to Rule 17a-5(d)(4)

For the Year Ended October 31, 2007

Net capital, as previously reported	<u>\$498,897</u>
Aggregated indebtedness, as previously reported	<u>\$6,667</u>
Aggregated indebtedness, as reported herein	<u>\$6,667</u>

See Accountant's Report



DAVID SHERMAN & COMPANY

Computation of Aggregated Indebtedness

For the Year Ended October 31, 2007

Total allowable liabilities from statement of financial condition	\$6,667
Deduct: Special reserve bank account deposit [15c3-1 (c)(1)(vii)]	<u>0</u>
Total Aggregated Indebtedness	<u><u>\$6,667</u></u>

See Accountant's Report



**To the Shareholder and
Board of Directors**

**DAVID SHERMAN & COMPANY
Northbrook, Illinois 60062**

We have examined the financial statements of DAVID SHERMAN & COMPANY, an Illinois corporation, for the year ended October 31, 2007 and have issued our report thereon dated November 9, 2007. As part of our examination, we made a study and evaluation of the Company's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and Rule 17a-5 of the Securities and Exchange Commission.

This study and evaluation included the accounting system, the procedures for safeguarding securities, and practices and procedures followed by the Company:

- a) in making the periodic computations of aggregated indebtedness and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e);**
- b) in making the quarterly securities examinations, counts, verifications and comparisons, and the reconciliation of differences required by Rule 17a-13;**
- c) in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.**

Rule 17a-5 states that the scope of the study and evaluation should be sufficient to provide reasonable assurance that any material weakness existing at the date of our examination would be disclosed. Under generally accepted auditing standards and Rule 17a-5, the purpose of such study and evaluation is to establish a basis for reliance thereon in determining the nature, timing and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to provide a basis for reporting material weaknesses in internal accounting control. Our study and evaluation was more limited that would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of DAVID SHERMAN & COMPANY, is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets 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 accordance with generally accepted accounting principles. However, for the purpose of this report under Rule 17a-5, the cost-benefit relationship has to be disregarded in determining weaknesses to be reported.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also projections of any evaluation of the system to future periods are subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purposes set forth in the first paragraph would not necessarily disclose all weaknesses in the system.

Accordingly, we do not express an opinion on the system of internal accounting control of DAVID SHERMAN & COMPANY, taken as a whole. However, our study and evaluation discloses no condition that we believed to be a material weakness.

Bernstein & Brown, P.C.

November 9, 2007