HANDLEMAN CO /MI/
Form 10-Q
December 10, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the second quarter ended October 26, 2002   Commission File Number 1-7923

Handleman Company
(Exact name of registrant as specified in its charter)

Michigan	38-1242806
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 Kirts Boulevard, Troy, Michigan	48084-4142	(248) 362-4400
(Address of principal executive offices)	(Zip code)	(Registrant's telephone number)

Indicate by checkmark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	DATE	SHARES OUTSTANDING
Common Stock - $.01 Par Value	November 29, 2002	25,839,839

HANDLEMAN COMPANY

INDEX

HANDLEMAN COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(amounts in thousands except per share data)

	Three Months (13 Weeks) Ended		Six Months
	October 26, 2002	October 27, 2001	October 26, 2002
Revenues	$ 348,891	$ 355,223	$ 619,855
Costs and expenses:			
Direct product costs	265,912	268,753	476,366
Selling, general and administrative expenses	58,255	60,585	114,087
Interest expense, net	223	1,298	606
Income before income taxes and minority interest	24,501	24,587	28,796
Income tax expense	(8,660)	(8,948)	(10,435)
Minority interest	192	106	366
Net income	$ 16,033	$ 15,745	$ 18,727
Net income per share			
Basic	$ 0.61	$ 0.59	$ 0.71

Diluted	$ 0.61	$ 0.58	$ 0.71
Weighted average number of shares outstanding during the period			
Basic	26,202	26,707	26,339
Diluted	26,217	26,948	26,361

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

1

HANDLEMAN COMPANY
CONSOLIDATED BALANCE SHEETS
(amounts in thousands except share data)

	October 26, 2002 (Unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	$ 6,898
Accounts receivable, less allowance of $15,042 at October 26, 2002 and $14,067 at April 27, 2002, respectively, for the gross profit impact of estimated future returns	303,815
Merchandise inventories	182,563
Other current assets	16,097
Total current assets	509,373
Property and equipment:	
Land, buildings and improvements	13,738
Display fixtures	37,373
Computer hardware and software	55,524
Equipment, furniture and other	33,280
	139,915
Less accumulated depreciation	76,434
	63,481
Other assets, net	93,040
Total assets	$ 665,894
LIABILITIES	
Current liabilities:	
Accounts payable	$ 265,503
Debt, current portion	3,571
Accrued and other liabilities	34,392

Total current liabilities	303,466
Debt, non-current	46,263
Other liabilities	10,932
SHAREHOLDERS' EQUITY	
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued	--
Common stock, $.01 par value; 60,000,000 shares authorized; 25,850,000 and 26,472,000 shares issued at October 26, 2002 and April 27, 2002, respectively	259
Foreign currency translation adjustment	(3,997)
Unearned compensation	(2,639)
Retained earnings	311,610
Total shareholders' equity	305,233
Total liabilities and shareholders' equity	$ 665,894

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

2

HANDLEMAN COMPANY
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(UNAUDITED)
(amounts in thousands)

	Six Months (26 Weeks) Ended October 26, 2002				
	Common Stock		Foreign Currency		
	Shares Issued	Amount	Translation Adjustment	Unearned Compensation	Retained Earnings
April 27, 2002	26,472	$ 265	$ (7,005)	$ (1,708)	$298,066
Net income					18,727
Adjustment for foreign currency translation			3,008		
Comprehensive income, net of tax					
Common stock issuances, net of forfeitures, in connection with employee benefit plans	81	1		(931)	1,453
Common stock repurchased	(703)	(7)			(6,986)

Tax benefit from exercise of stock options					350
October 26, 2002	25,850	$ 259	$ (3,997)	$ (2,639)	$311,610

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

3

HANDLEMAN COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(amounts in thousands)

	Six Months
	October 26, 2002
Cash flows from operating activities:	
Net income	$ 18,727
Adjustments to reconcile net income to net cash provided from (used by)operating activities:	
Depreciation	9,716
Amortization of acquisition costs	135
Recoupment of license advances	11,573
(Gain) loss on disposal of property and equipment	(63)
Tax benefit from exercise of stock options	350
Changes in operating assets and liabilities:	
Increase in accounts receivable	(27,595)
Increase in merchandise inventories	(56,317)
Decrease in other operating assets	9,640
Increase in accounts payable	58,706
Decrease in other operating liabilities	(8,986)
Total adjustments	(2,841)
Net cash provided from (used by) operating activities	15,886
Cash flows from investing activities:	
Additions to property and equipment	(7,157)
Proceeds from dispositions of properties	4,738
License advances and acquired rights	(10,035)
Additional investments in subsidiary companies	(5,840)
Net cash used by investing activities	(18,294)

Cash flows from financing activities:	
Issuances of debt	1,498,508
Repayments of debt	(1,505,994)
Repurchases of common stock	(6,993)
Other changes in shareholders' equity, net	3,531
Net cash (used by) provided from financing activities	(10,948)
Net decrease in cash and cash equivalents	(13,356)
Cash and cash equivalents at beginning of period	20,254
Cash and cash equivalents at end of period	$ 6,898

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of management, the accompanying consolidated balance sheets and consolidated statements of income, shareholders' equity and cash flows contain all adjustments, consisting only of normal recurring adjustments necessary to present fairly the financial position of the Company as of October 26, 2002, and the results of operations and changes in cash flows for the six months then ended. Because of the seasonal nature of the Company's business, sales and earnings results for the six months ended October 26, 2002 are not necessarily indicative of what the results will be for the full year. The consolidated balance sheet as of April 27, 2002 included in this Form 10-Q was derived from the audited consolidated financial statements of the Company included in the Company's 2002 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Reference should be made to the Company's Form 10-K for the year ended April 27, 2002, including the discussion of the Company's critical accounting policies.

2. The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," effective for fiscal 2003, which began on April 28, 2002. SFAS No. 142 changes the accounting for goodwill and other intangible assets with indefinite lives from an amortization approach to a non-amortization (impairment) approach. SFAS No. 142 requires amortization of goodwill recorded in connection with previous business combinations to cease upon adoption of the Statement. The Company analyzed the impact of SFAS No. 142 on its consolidated financial position and results of operations and determined that no adjustment to the carrying value of goodwill was required in the second quarter ended October 26, 2002. The Company will perform impairment analyses for goodwill and other intangible assets with indefinite lives on an annual basis going forward. Adoption of SFAS No. 142 will result in an increase in net income of approximately $1.3 million for fiscal 2003.

   The Company has adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for fiscal 2003. SFAS No. 144

supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This Statement applies to long-lived assets other than goodwill. SFAS No. 144 prescribes a probability-weighted cash flow estimation approach to evaluate the recoverability of the carrying amount of long-lived assets such as property, plant and equipment. The Company does not expect that SFAS No. 144 will have a significant effect on its operating results.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made

to Satisfy Sinking-Fund Requirements." This Statement also amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The Company is currently evaluating the impact of this Statement and has not yet determined what effect, if any, it may have on the consolidated financial position and results of operations of the Company.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued by the Financial Accounting Standards Board. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement become effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently evaluating the impact of this Statement and has not yet determined what effect, if any, it may have on the consolidated financial position and results of operations of the Company.

3. The Company operates in two business segments: Handleman Entertainment Resources ("H.E.R.") is responsible for music category management and distribution operations, and North Coast Entertainment ("NCE") is responsible for the Company's proprietary operations, which include music and video product.

   The accounting policies of the segments are the same as those described in Note 1, "Accounting Policies," contained in the Company's Form 10-K for the year ended April 27, 2002. Segment data includes intersegment revenues, as well as a charge allocating corporate costs to the operating segments. The Company evaluates performance of its segments and allocates resources to them based on income before interest, income taxes and minority interest ("segment income").

Notes to Consolidated Financial Statements (continued)

The tables below present information about reported segments for the three months ended October 26, 2002 and October 27, 2001 (in thousands of dollars):

Three Months Ended October 26, 2002:	H.E.R.	NCE	Total
Revenues, external customers	$313,612	$35,133	$348,745
Intersegment revenues	--	8,942	8,942
Segment income	19,925	4,461	24,386
Capital expenditures	4,901	107	5,008

Three Months Ended October 27, 2001:	H.E.R.	NCE	Total
Revenues, external customers	$315,589	$39,546	$355,135
Intersegment revenues	--	6,493	6,493
Segment income	23,037	2,581	25,618
Capital expenditures	12,971	1,208	14,179

A reconciliation of total segment revenues to consolidated revenues and total segment income to consolidated income before income taxes and minority interest, for the three months ended October 26, 2002 and October 27, 2001 is as follows (in thousands of dollars):

	October 26, 2002	October 27, 2001
Revenues		
Total segment revenues	$357,687	$361,628
Corporate rental income	146	88
Elimination of intersegment revenues	(8,942)	(6,493)
Consolidated revenues	$348,891	$355,223
Income Before Income Taxes and Minority Interest		
Total segment income for reportable segments	$ 24,386	$ 25,618
Interest income	178	257
Interest expense	(401)	(1,555)
Unallocated corporate income	338	267
Consolidated income before income taxes		

and minority interest	$ 24,501	$ 24,587
	========	========

Notes to Consolidated Financial Statements (continued)

The tables below present information about reported segments as of and for the six months ended October 26, 2002 and October 27, 2001 (in thousands of dollars):

Six Months Ended October 26, 2002:	H.E.R.	NCE	Total
Revenues, external customers	$557,530	$ 62,034	$619,564
Intersegment revenues	--	13,173	13,173
Segment income	23,483	5,230	28,713
Total assets	576,810	161,521	738,331
Capital expenditures	6,789	368	7,157

Six Months Ended October 27, 2001:	H.E.R.	NCE	Total
Revenues, external customers	$555,031	$ 61,130	$616,161
Intersegment revenues	--	10,316	10,316
Segment income (loss)	33,280	(1,462)	31,818
Total assets	658,569	190,327	848,896
Capital expenditures	14,708	2,119	16,827

A reconciliation of total segment revenues to consolidated revenues, total segment income to consolidated income before income taxes and minority interest, and total segment assets to consolidated assets as of and for the six months ended October 26, 2002 and October 27, 2001 is as follows (in thousands of dollars):

	October 26, 2002	October 27, 2001
Revenues		
Total segment revenues	$ 632,737	$ 626,477
Corporate rental income	291	177
Elimination of intersegment revenues	(13,173)	(10,316)
Consolidated revenues	$ 619,855	$ 616,338
	=========	=========
Income Before Income Taxes and Minority Interest		
Total segment income for reportable segments	$ 28,713	$ 31,818

Interest income	332	643
Interest expense	(938)	(2,837)
Unallocated corporate income	689	534
Consolidated income before income taxes and minority interest	$ 28,796	$ 30,158

Assets		
Total segment assets	$ 738,331	$ 848,896
Elimination of intercompany receivables and payables	(72,437)	(100,555)
Consolidated assets	$ 665,894	$ 748,341

Notes to Consolidated Financial Statements (continued)

4. Comprehensive income is net income plus certain other items recorded directly to shareholders' equity. Comprehensive income, net of tax was $21.7 million for the six months ended October 26, 2002, compared to $17.7 million for the six months ended October 27, 2001.

5. A reconciliation of the weighted average shares used in the calculation of basic and diluted shares is as follows (in thousands):

	Three Months Ended		Six
	Oct. 26, 2002	Oct. 27, 2001	Oct. 200
Weighted average shares during the period-basic	26,202	26,707	26,33
Additional shares from assumed exercise of stock options	15	241	2
Weighted average shares adjusted for assumed exercise of stock options-diluted	26,217	26,948	26,36

Handleman Company
Management's Discussion and Analysis of
Financial Condition and Results of Operations

Revenues for the second quarter of fiscal 2003, which ended October 26, 2002, decreased 2% to $348.9 million from $355.2 million for the second quarter of fiscal 2002, which ended October 27, 2001. Net income for the second quarter of fiscal 2003 was $16.0 million or $.61 per diluted share, compared to $15.7 million or $.58 per diluted share for the second quarter of fiscal 2002.

Revenues for the first six months of fiscal 2003 were $619.9 million, a slight increase from $616.3 million for the first six months of fiscal 2002. Net income for the first six months of this year was $18.7 million or $.71 per diluted share, compared to $17.8 million or $.66 per diluted share for the comparable six-month period of last year.

The Company has two business segments: Handleman Entertainment Resources ("H.E.R.") and North Coast Entertainment ("NCE"). H.E.R. consists of music category management and distribution operations principally in North America and the United Kingdom ("UK"). NCE encompasses the Company's proprietary operations, which include music and video product.

H.E.R. revenues were $313.6 million for the second quarter of fiscal 2003, compared to $315.6 million for the second quarter of fiscal 2002. H.E.R. revenues for the first six months of this year were $557.5 million, up modestly from $555.0 million for the first six months of last year.

NCE revenues for the second quarter of fiscal 2003 decreased 4% to $44.1 million from $46.0 million for the second quarter of fiscal 2002. The decrease in revenues was principally due to lower sales at the Anchor Bay Entertainment unit, primarily resulting from focusing on better aligning customer shipments with consumer demand, which should result in lower returns from Anchor Bay customers in the third quarter of this fiscal year. NCE revenues for the first six months of this year totaled $75.2 million, compared to $71.4 million for the first six months of last year, an increase of 5%.

Consolidated direct product costs as a percentage of revenues was 76.2% for the second quarter ended October 26, 2002, compared to 75.7% for the second quarter ended October 27, 2001. Consolidated direct product costs as a percentage of revenues was 76.9% for the first six months of fiscal 2003, compared to 76.1% for the first six months of fiscal 2002. These increases in consolidated direct product costs as a percentage of revenues, for both the second quarter and first six months, were primarily due to a change in sales mix, specifically, increased sales to certain customers which do not utilize the full suite of H.E.R. category management services, and accordingly, resulted in sales with higher direct product costs as a percentage of revenues.

Consolidated selling, general and administrative ("SG&A") expenses were $58.3 million or 16.7% of revenues for the second quarter of fiscal 2003, compared to $60.6 million or 17.1% of revenues for the second quarter of fiscal 2002. The decrease in consolidated SG&A expenses was primarily due to lower expenses at NCE of $3.6 million, chiefly a result of the discontinuance of operations at The itsy bitsy Entertainment Company ("TibECo") and lower consulting expenses, which accounted for 47% and 25% of the decrease in NCE SG&A expenses, respectively. Consolidated SG&A expenses for the first six months of this year were

$114.1 million or 18.4% of revenues, compared to $114.8 million or 18.6% of revenues for the first six months of last year.

Consolidated income before interest, income taxes and minority interest ("operating income") for the second quarter of fiscal 2003 was $24.7 million, compared to $25.9 million for the second quarter of fiscal 2002. Operating income for the first six months of this fiscal year was $29.4 million, compared to $32.4 million for the first six months of last fiscal year. The decrease in operating income for the first six months of fiscal 2003 was primarily attributable to the increase in direct product costs as a percentage of revenues, as mentioned above.

H.E.R. operating income for the second quarter of this year was $19.9 million, compared to $23.0 million for the second quarter of last year, a decrease of 13%. The decrease in H.E.R. operating income was primarily due to higher direct product costs as a percentage of revenues, driven by a change in the sales mix. H.E.R. operating income for the first six months of fiscal 2003 was $23.5 million, compared to $33.3 million for the first six months of fiscal 2002. Approximately 55% of the decrease in H.E.R. operating income for the first six months of this year was a result of increased SG&A expenses over the same period of last year. Approximately 74% of this increase in SG&A expenses was due to non-recurring charges in the first half of fiscal 2003, while increased costs at Handleman Online accounted for the balance of the increase in H.E.R expenses. The remaining decrease in H.E.R. operating income for the first six months of this year was due to a change in H.E.R. sales mix, as mentioned above.

NCE operating income for the second quarter ended October 26, 2002 increased 73% to $4.5 million from $2.6 million for the comparable prior year period. The improvement in NCE operating income was predominately due to an increase in operating income of $1.6 million at the Madacy Entertainment unit and the discontinuance of TibECo operations which incurred a $1.1 million operating loss in the second quarter of fiscal 2002. The improvement in Madacy operating income was principally due to cost control efforts. NCE had operating income of $5.2 million for the first six months of fiscal 2003, compared to an operating loss of $1.5 million for the comparable period of fiscal 2002. The discontinuance of operations at TibECo accounted for approximately 73% of the improvement in year-to-date NCE operating income, with the remaining improvement resulting from increased operating income at Madacy.

Interest expense, net for the second quarter of fiscal 2003 was $0.2 million, compared to $1.3 million for the second quarter of fiscal 2002. Interest expense, net for the six months ended October 26, 2002 was $0.6 million, compared to $2.2 million for the six-month period ended October 27, 2001. The decreases in interest expense, net, for both the second quarter and six-month period, were due to lower borrowing levels achieved in fiscal 2003, compared to those in fiscal 2002.

During the second quarter of fiscal 2003, the Company repurchased 577,150 shares of its common stock at an average price of $9.52 per share. An additional 950,000 shares remain available for repurchase under the existing Board of Directors authorization. The Company plans to continue to repurchase shares during the balance of fiscal 2003. The amount of repurchase activity will depend on the Company's cash flow, investment alternatives and the market price of the stock.

11

Accounts receivable at October 26, 2002 was $303.8 million, compared to $274.5 million at April 27, 2002. The increase reflects the higher sales volume in the second quarter of this year versus the fourth quarter of last year.

Merchandise inventories at October 26, 2002 was $182.6 million, compared to $126.1 million at April 27, 2002. This increase was primarily due to higher inventory purchases in preparation for the upcoming holiday season.

Other current assets decreased to $16.1 million at October 26, 2002 from $22.4 million at April 27, 2002. The decrease in other current assets was primarily attributable to a reduction in deferred tax assets and prepaid expenses.

Accounts payable increased to $265.5 million at October 26, 2002 from $206.2 million at April 27, 2002. The increase in accounts payable chiefly resulted from higher inventory purchases in the second quarter of fiscal 2003, compared to the fourth quarter of fiscal 2002, as mentioned above.

Debt, non-current at October 26, 2002 was $46.3 million, compared to $53.7 million at April 27, 2002. The decrease in debt, non-current resulted from lower borrowing requirements due to increased cash provided from operating activities for the first six months of this fiscal year.

Cash provided from operating activities for the first six months of fiscal 2003 was $15.9 million, compared to cash used by operating activities of $81.0 million for the same six-month period of last year. Decreases in accounts receivable and merchandise inventories over the prior year continue to drive the improvement in cash flows from operations. Net cash used by investing activities decreased to $18.3 million for the six months ended October 26, 2002, from cash used by investing activities of $28.0 million for the six months ended October 27, 2001. The decrease in cash used by investing activities was mainly due to fewer additions to property, plant and equipment, resulting from reduced expenditures for customer store fixtures over the same period of last year. Cash used by financing activities was $10.9 million for the first six months of this fiscal year, compared to cash provided from financing activities of $87.9 million for the first six months of last fiscal year. The decrease in cash flows from financing activities over the comparable prior year period was primarily due to lower overall borrowing levels and repurchases of the Company's common stock, both resulting from increased cash provided from operating activities.

The Company has an unsecured $170 million line of credit, arranged with a consortium of banks. During the quarter, the expiration date of this agreement was extended one year to August 2005. Management believes that the revolving credit agreement, along with cash provided from operations, provide sufficient liquidity to fund the Company's day-to-day operations, including seasonal increases in working capital. The balance due at October 26, 2002 on the credit agreement was $39.1 million. The Company also has a senior note agreement with a group of insurance companies. The remaining balance on the senior note agreement is $10.7 million and is payable in equal annual installments through fiscal 2005.

Reference should be made to Note 2 of the Notes to Consolidated Financial Statements, in this Form 10-Q, for new accounting pronouncements adopted in fiscal 2003, and those currently being evaluated by the Company.

The Company expects sales for the remainder of fiscal 2003 to increase in the low to mid-single digit range. This projection is in line with prior guidance and is dependent upon multiple factors including the success of new music releases during the upcoming holiday season, the level of post-holiday season customer returns, the timing and specifics of the Company's key customer Chapter 11 restructuring and that customer's ability to revive store sales, and the health of the economy, the retail sector and the music industry. The lack of strong selling new releases in the second half of fiscal 2003 could result in lower sales and higher returns, which may negatively impact the Company's performance for the remainder of this fiscal year. Consolidated product costs as a percentage of revenues is expected to increase to approximately 78% for the balance of fiscal 2003. Management expects SG&A expenses to continue to decline, both in dollars and as a percentage of revenues when compared to the second half of fiscal 2002. In the third quarter of last fiscal year, the Company incurred a

$7.4 million pre-tax charge to adjust TibECo assets to net realizable value, and the effective income tax rate was unusually low, resulting from the losses incurred at TibECo. The Company expects no further adjustments to TibECo for the remainder of this fiscal year, and as a result, expects a more normalized tax rate in the 36 - 38% range for fiscal 2003. Additionally, the Company plans to continue to repurchase shares of its common stock during the balance of fiscal 2003. Based on the above, management expects earnings for fiscal 2003 to be in the range of $1.58 - $1.62 on a per share basis, compared to $1.39 per share last year.

* * * * * * * * * * * *

This document contains forward-looking statements, which are not historical facts and involve risk and uncertainties. Actual results, events and performance could differ materially from those contemplated by these forward-looking statements, including without limitation, conditions in the music industry, the effect of a key customer's Chapter 11 proceedings, ability to enter into profitable agreements with customers in the new businesses outlined in the Company's strategic growth plan, securing funding or providing sufficient cash required to build and grow new businesses, customer requirements, continuation of satisfactory relationships with existing customers and suppliers, effects of electronic commerce, effects of music product piracy, relationships with the Company's lenders, pricing and competitive pressures, the occurrence of catastrophic events or acts of terrorism, certain global and regional economic conditions, and other factors detailed from time to time in the Company's filings with the Securities and Exchange Commission. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date of this document. Additional information that could cause actual results to differ materially from any forward-looking statements may be contained in the Company's Annual Report on Form 10-K.

CONTROLS AND PROCEDURES

(1) Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934 (the "Exchange Act"). These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days before the filing of this quarterly report (the "Evaluation Date"), and, they have concluded that, as of the Evaluation Date, such controls and procedures were effective in ensuring that required information will be disclosed on a timely basis in the Company's reports filed under the Exchange Act.

(2) Changes in Internal Controls

The Company maintains a system of internal accounting controls that is designed to provide reasonable assurance that the transactions of the Company are accurately reflected in its books of record. Since the Evaluation Date, there have been no significant changes to the Company's internal controls or in other factors that could significantly affect its internal controls, and management has not identified any significant deficiencies or material weaknesses in the Company's internal controls.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

An Annual Meeting of Shareholders of Handleman Company was held on September 10, 2002. One item was voted on at the Annual Meeting, the election of directors. The following individuals were elected as directors of the Company: Eugene A. Miller, 23,654,537 votes for, 489,529 votes withheld; Sandra E. Peterson, 23,302,161 votes for, 841,905 votes withheld; and Irvin D. Reid, 23,647,577 votes for, 496,489 votes withheld.

Item 6. Exhibits or Reports on Form 8-K

No reports on Form 8-K were filed during the quarter.

SIGNATURES: Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HANDLEMAN COMPANY

DATE: December 10, 2002

BY: /s/ Stephen Strome

STEPHEN STROME
Chairman of the Board and
Chief Executive Officer

DATE: December 10, 2002

BY: /s/ Thomas C. Braum, Jr.

THOMAS C. BRAUM, JR.
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of HANDLEMAN COMPANY (the "Company") on Form 10-Q for the period ended October 26, 2002 (the "Report"), Stephen Strome, Chairman of the Board and Chief Executive Officer of the Company, and Thomas C. Braum, Jr., Senior Vice President and Chief Financial Officer of the Company, each certifies in his capacity as an officer of the Company, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: December 10, 2002

/s/ Stephen Strome

STEPHEN STROME
Chairman of the Board and
Chief Executive Officer

Date: December 10, 2002

/s/ Thomas C. Braum, Jr.

THOMAS C. BRAUM, JR.
Senior Vice President and
Chief Financial Officer

16

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen Strome, Chairman of the Board and Chief Executive Officer, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of HANDLEMAN COMPANY;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure control and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 10, 2002

/s/ Stephen Strome

STEPHEN STROME
Chairman of the Board and
Chief Executive Officer

17

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas C. Braum, Jr., Senior Vice President and Chief Financial Officer, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of HANDLEMAN COMPANY;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure control and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 10, 2002

/s/ Thomas C. Braum, Jr.

THOMAS C. BRAUM, JR.
Senior Vice President and
Chief Financial Officer