

HANDLEMAN CO /MI/
Form 11-K/A
October 29, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K/A

Amendment No. 1

Annual Report Pursuant to Section 15(d) of the
Securities Exchange Act of 1934 (Fee Required)

For The Year Ended December 31, 2003

or

Transition Report Pursuant to Section 15(d) of the
Securities Exchange Act of 1934 (No Fee Required)

For The Transition Period from ____ to

Commission File Number 00107923

HANDLEMAN COMPANY SALARY

DEFERRAL PLAN

(Full title of the Plan)

HANDLEMAN COMPANY

(Name of issuer of the securities held pursuant to the Plan)

500 Kirts Boulevard

Troy, Michigan 48084

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(Address of principal executive offices)

Explanatory Note:

This Form 11-K/A has been filed to reclassify amounts reported on the Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2003. The Form 11-K/A has been reconciled to the Form 5500 for the year ended December 31, 2003; footnote 7 has been added to reconcile amounts reported on the Form 11-K/A to amounts reported on the Form 5500. Footnote 8 has been added to show the line-item differences between the original Form 11-K and the Form 11-K/A.

The following financial statements and exhibits are presented pursuant to Section 15(d) of the Securities Exchange Act of 1934:

| | <u>Page</u> | | <u>Exhibit Number</u> |
|--|-------------|--|---------------------------|
| (a) Financial Statements: | | | |
| Report of Independent Registered Public Accounting Firm | 1 | | |
| Statements of Net Assets Available for Benefits as of December 31, 2003 and 2002 | 2 | | |
| Statement of Changes in Net Assets Available for Benefits for the year ended December 31, 2003 | 3 | | |
| Notes to Financial Statements | 4-8 | | |
| Schedule of Assets (Held at End of Year) | 9-10 | | |
| Schedule of Reportable Transactions | 11-12 | | |
| | | | |
| (b) 1. Consent of Independent Registered Public Accounting Firm with respect to their report on their audit of the financial statements of the Handleman Company Salary Deferral Plan as of and for the year ended December 31, 2003 | | | 23.1 |

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of the

Handleman Company Salary Deferral Plan

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits, after giving effect to the restatement discussed in Note 8, present fairly, in all material respects, the net assets available for benefits of the Handleman Company Salary Deferral Plan (the Plan) at December 31, 2003 and 2002, and the changes in net assets available for benefits for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) as of December 31, 2003 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosures under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits 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.

/s/ PricewaterhouseCoopers LLP

Detroit, Michigan

October 26, 2004

HANDLEMAN COMPANY

SALARY DEFERRAL PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

| | December 31, | |
|--|----------------------|----------------------|
| | 2003 | 2002 |
| ASSETS: | | |
| Investments, at fair value | \$ 29,048,312 | \$ 19,907,273 |
| Receivables | | |
| Employee contributions receivable | 105,195 | 102,033 |
| Employer contribution receivable | 35,542 | 38,873 |
| Accrued dividends and interest | 2,844 | 2,146 |
| Total - Receivables | 143,581 | 143,052 |
| NET ASSETS AVAILABLE FOR BENEFITS | \$ 29,191,893 | \$ 20,050,325 |

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

HANDLEMAN COMPANY

SALARY DEFERRAL PLAN

STATEMENT OF CHANGES IN NET ASSETS

AVAILABLE FOR BENEFITS

for the year ended December 31, 2003

| | <u>Restated</u> |
|---|----------------------|
| Additions: | |
| Contributions | |
| Employer contributions | \$ 1,040,529 |
| Employee contributions | 2,935,368 |
| Total Contributions | 3,975,897 |
| Investment Income | |
| Dividend income | 41,408 |
| Interest income | 78,993 |
| Net appreciation in fair value of investments | 6,965,224 |
| Total Investment income | 7,085,625 |
| Total Additions | 11,061,522 |
| Deductions: | |
| Benefits to participants | 1,889,364 |
| Administrative expenses | 30,590 |
| Total deductions | 1,919,954 |
| Net increase | 9,141,568 |
| Net assets available for benefits, beginning of year | 20,050,325 |
| Net assets available for benefits, end of year | \$ 29,191,893 |

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

HANDLEMAN COMPANY

SALARY DEFERRAL PLAN

NOTES TO FINANCIAL STATEMENTS

1. Description of Plan

The following description of the Handleman Company Salary Deferral Plan (the Plan) provides only general information. Participants should refer to the Plan Document for a complete description of the Plan's provisions; the Plan operates in accordance with the Plan Document.

General

The Plan is a defined contribution plan which includes salary deferral and employee stock ownership provisions. The Plan covers nearly all employees of the Handleman Company (the Company) and subsidiaries and affiliates that have adopted the Plan. Effective May 1, 2001 eligibility for covered employees to enter the Plan was changed from one year of service to the first of the month following sixty days of employment. The Plan generally excludes employees that are covered by collective bargaining agreements, laid off, on leave of absence, on active duty in the armed forces of any nation other than the armed forces of the United States of America, leased employees, or any person whose status as an employee is the result of a judicial or administrative determination. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

Employee authorized contributions of tax deferred compensation are limited in any one year to the lesser of fifteen percent of employee compensation or the statutory maximum. In addition, total contributions by highly compensated employees cannot exceed specific percentage limitations of the aggregate contributions of all other employees as set forth in the Internal Revenue Code.

The Company provides for a matching contribution equal to 50 percent of the elective salary deferral contribution made by each participant, up to six percent of such participant's compensation, to be invested in Company stock. Company contributions to the Salary Deferral portion of the Plan are allocated to participants who are eligible as defined by the Plan. There are certain limitations on the amounts which can be allocated. Employees may direct employee and employer contributions to the Plan into Company stock or various investment funds, which are established and monitored by the Company from time to time.

In addition, the Company may allocate discretionary contributions and forfeitures if any, among Company Contribution Accounts of the Participants who received Creditable Compensation during the Plan Year.

Participant Accounts

Each participant's account is credited with employee contributions, in addition to an allocation of any Company matching contribution and Plan earnings, net of Plan expenses. Top Heavy Contributions, if any, shall also be allocated as of the last day of the Plan Year to the account of each Participant who is a Non-Key Employee. To receive a share of the discretionary contributions, forfeitures and/or Non-Key Employee Contributions, a participant must be employed by the Company on the last day of the Plan Year.

Loans to Participants

The Plan allows participants to borrow against their account balances. The maximum loan to any participant is the lesser of 50% of the participant's non-forfeitable salary deferral account balance or \$50,000. Interest on participant loans are charged interest at a rate of prime rate plus 1%. Loans to participants were charged interest at rates ranging from 5.25% to 10.50%, maturing in one to fifteen years. Participant loans as of December 31, 2003 and 2002 were \$603,176 and \$539,527, respectively.

HANDLEMAN COMPANY

SALARY DEFERRAL PLAN

NOTES TO FINANCIAL STATEMENTS, Continued

1. Description of Plan, continued

Plan Expenses

Expenses of the Trustee and Administrative Committee are charged to participant accounts unless the Company, at its discretion, elects to pay these expenses.

Vesting

The Plan includes a graded vesting schedule for matching contributions of 20 percent for each year of service, resulting in 100 percent vesting after five years of service.

Payment of Benefits

On termination of service due to death, disability or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account, or monthly, quarterly or annual installments over the participant's life expectancy. On termination of service, a participant will be eligible to receive the plan assets allocated to the participant's account and which have vested or an equivalent amount in cash.

Forfeited Accounts

Non-vested Company matching contributions for terminated participants are forfeited by the participant and are used to reduce future employer matching contributions to the Plan. As of December 31, 2003 forfeited non-vested accounts totaled \$36,731.

Related-Party Transactions

During 2003 and 2002, the Plan had transactions with Handleman Company and with Fidelity Investment Company (current trustee effective March 1, 2004). The amount invested in Handleman Company common stock at December 31, 2004 and December 31, 2003 represents 21 percent and 22 percent, respectively, of total investments. Participant loans also qualify as party-in-interest.

2. Summary of Accounting Policies

Basis of Accounting

The financial statements are prepared under the accrual method of accounting.

Contributions

Contributions are accrued in the plan year to which the contributions relate.

Investments

At the end of the plan year, Company stock is valued at the closing market price of the stock on the last business day of the Plan's year. Mutual funds are reflected at estimated fair values or at the fair value as determined by quoted market prices at the year-end date as reported by the Plan's investment custodian, Fidelity Investments.

The basis on which cost is determined to compute realized gains or losses from sales of investments, other than the Company stock, is average cost. The basis on which cost is determined for the Company stock is specific identification.

HANDLEMAN COMPANY

SALARY DEFERRAL PLAN

NOTES TO FINANCIAL STATEMENTS, Continued

2. Summary of Accounting Policies, continued

The Plan presents, in the Statement of Changes in Net Assets Available for Benefits, the net appreciation (depreciation) in fair value of investments which consists of the realized gains (losses) and the unrealized appreciation (depreciation) on those investments.

For purposes of determining Company contributions, Company stock received as the Company contribution is valued at the closing price on the day the contribution is made.

During the plan year ended December 31, 2003, the net appreciation in the fair value of investments was comprised of the following:

| | |
|---|--------------|
| Mutual Funds | \$ 4,139,127 |
| Common/Collective Trusts | 3,346 |
| Common Stock Fund | 2,828,456 |
| Other | (5,705) |
| | <hr/> |
| Total net appreciation in fair value of investments | \$ 6,965,224 |
| | <hr/> |

Risks and Uncertainties

The Plan's invested assets consist of stocks, bonds, fixed income securities and other investment securities. Investment securities are exposed to various risks such as interest rate fluctuations, market conditions and credit risks. Due to the level of risk associated with certain investment securities, and the level of uncertainties related to changes in the value of securities, it is at least possible that changes in risks in the near term would materially affect participants' account balances and the related Statements of Net Assets Available for Benefits.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in assets during the reporting period. Actual results could differ from these estimates.

3. Change in Trustee

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KeyCorp served as trustee of the Plan until February 28, 2003. Since that time, Fidelity Management Trust Company has served as the Plan's trustee.

HANDLEMAN COMPANY

SALARY DEFERRAL PLAN

NOTES TO FINANCIAL STATEMENTS, Continued4. Investments

The following presents investments that represent 5 percent or more of the Plan's net assets:

| | December 31, | |
|---|--------------|--------------|
| | 2003 | 2002 |
| Handleman Company Common Stock | \$ 6,222,148 | \$ 3,945,136 |
| Spartan U.S. Equity Index Fund | 5,290,568 | N/A |
| Fidelity Balanced Fund | 4,943,878 | N/A |
| Fidelity Retirement Money Market Fund | 2,918,560 | N/A |
| Neuberger Berman Genesis Trust Fund | 1,977,735 | 1,257,168 |
| Fidelity Diversified International Fund | 1,973,806 | N/A |
| Victory Stock Index Fund | N/A | 3,933,718 |
| American Balanced Fund | N/A | 3,755,401 |
| VDCS Victory Government Reserves SVP Fund | N/A | 2,724,080 |
| Janus Worldwide Fund | N/A | 1,217,288 |

5. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants would become 100 percent vested in their employer contributions.

6. Tax Status

The Internal Revenue Service has ruled that the Plan qualifies under Section 401 of the Internal Revenue Code (IRC) and is, therefore, not subject to tax under present income tax laws by a letter dated July 15, 2003.

7. Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of the net increase in net assets available for benefits per the financial statements to net income per the Form 5500 for the year ended December 31, 2003:

| | |
|--|--------------|
| Net increase in net assets available for benefits per the financial statements | \$ 9,141,568 |
|--|--------------|

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| | | |
|------|--|--------------|
| Add: | Employee contributions receivable at December 31, 2002 | 102,033 |
| | Employer contributions receivable at December 31, 2002 | 38,873 |
| | Other | 5,537 |
| | | <hr/> |
| | Net income per the Form 5500 | \$ 9,288,011 |
| | | <hr/> |

HANDLEMAN COMPANY

SALARY DEFERRAL PLAN

NOTES TO FINANCIAL STATEMENTS, Continued

The following is a reconciliation of the net assets available for benefits per the financial statements to the net assets available for benefits per the Form 5500 for the year ended December 31, 2002:

| | |
|--|----------------------|
| Net assets available for benefits per the financial statements | \$ 20,050,325 |
| Less: Employee contributions receivable at December 31, 2002 | 102,033 |
| Employer contributions receivable at December 31, 2002 | 38,873 |
| Other | 5,539 |
| | <u> </u> |
| Net assets available for benefits per the Form 5500 | <u>\$ 19,903,880</u> |

8. Restatement of Previously Issued Financial Statements

The financial statements as of and for the plan year ending December 31, 2003 have been restated to reflect the reclassification of amounts included in the Statement of Changes in Net Assets Available for Benefits. The effect of the restatement is as follows:

| | <u>Previously Reported</u> | <u>Restated</u> |
|---|--------------------------------|-------------------|
| ADDITIONS: | | |
| Contributions | | |
| Employer contributions | \$ 1,069,383 | \$ 1,040,529 |
| Employee contributions | 2,945,220 | 2,935,368 |
| | <u> </u> | <u> </u> |
| Total contributions | 4,014,603 | 3,975,897 |
| Investment Income | | |
| Dividend income | 312,707 | 41,408 |
| Interest income | 35,763 | 78,993 |
| Net appreciation in fair value of investments | 6,357,593 | 6,965,224 |
| Accrued income | 23,610 | |
| | <u> </u> | <u> </u> |
| Total investment income | 6,729,673 | 7,085,625 |
| | <u> </u> | <u> </u> |
| TOTAL ADDITIONS | <u>10,744,276</u> | <u>11,061,522</u> |
| DEDUCTIONS: | | |

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| | | |
|--------------------------|------------------|------------------|
| Benefits to participants | 1,566,301 | 1,889,364 |
| Administrative expenses | 36,407 | 30,590 |
| | <hr/> | <hr/> |
| TOTAL DEDUCTIONS | 1,602,708 | 1,919,954 |
| | <hr/> | <hr/> |
| Net increase | \$ 9,141,568 | \$ 9,141,568 |
| | <hr/> | <hr/> |

HANDLEMAN COMPANY

SALARY DEFERRAL PLAN

Calendar Plan Year 2003

SUPPLEMENTAL SCHEDULE

SCHEDULE OF ASSETS (HELD AT END OF YEAR)

| (a) | (b) Identity of issue, borrower lessor, or similar party | (c) Description of investment including maturity date, rate of interest, collateral, par or maturity value | (d) Cost | (e) Current Value |
|-----|---|--|-------------|----------------------|
| * | Handleman Company Common Stock | Common Stock \$.01 par value | ** | \$ 6,222,148 |
| * | Spartan US Equity Index | Common Stock Fund | ** | \$ 5,290,568 |
| * | Fidelity Balanced Fund | Common Stock Fund | ** | \$ 4,943,878 |
| * | Fidelity Retirement Money Market Fund | Cash Equivalents | ** | \$ 2,918,560 |
| * | Neuberger Berman Genesis Trust Fund | Common Stock Fund | ** | \$ 1,977,735 |
| * | Fidelity Diversified International Fund | Common Stock Fund | ** | \$ 1,973,806 |
| * | Fidelity Contrafund Fund | Common Stock Fund | ** | \$ 1,098,776 |
| * | PIMCO Total Return ADM Fund | Debt Securities Fund | ** | \$ 929,076 |
| * | Fidelity Low PR Stock Fund | Common Stock Fund | ** | \$ 892,862 |
| * | Fidelity Value Fund | Common Stock and Bond Fund | ** | \$ 703,692 |
| * | Fidelity Equity Inc II Fund | Common Stock Fund | ** | \$ 380,127 |
| * | Fidelity Independence Fund | Common Stock Fund | ** | \$ 289,020 |
| * | Fidelity Freedom 2020 Fund | Common Stock Fund | ** | \$ 252,469 |

HANDLEMAN COMPANY

SALARY DEFERRAL PLAN

Calendar Plan Year 2003

SCHEDULE OF ASSETS (HELD AT END OF YEAR), continued

| (a) | (b) Identity of issue, borrower lessor, or similar party | (c) Description of investment including maturity date, rate of interest, collateral, par or maturity value | (d) Cost | (e) Current Value |
|-----|---|--|-------------|----------------------|
| * | Fidelity Mid-Cap Stock Fund | Common Stock Fund | ** | \$ 248,790 |
| * | Fidelity Freedom 2010 Fund | Common Stock Fund | ** | \$ 119,369 |
| * | Fidelity Freedom 2030 Fund | Common Stock Fund | ** | \$ 69,879 |
| * | Fidelity Freedom 2040 Fund | Common Stock Fund | ** | \$ 64,773 |
| * | Fidelity Small Cap Independent Fund | Common Stock Fund | ** | \$ 32,862 |
| * | Fidelity Freedom Income Fund | Common Stock Fund | ** | \$ 18,816 |
| * | Fidelity Freedom 2000 Fund | Common Stock Fund | ** | \$ 17,930 |
| * | Loans to Participants | Interest rates of 5.25% to 10.50% and maturing in 1 to 15 years | ** | \$ 603,176 |
| | | | | \$ 29,048,312 |

* These investments are with a party-in-interest.

** Not required per Department of Labor reporting for 100% participant-directed investments.

HANDLEMAN COMPANY

SALARY DEFERRAL PLAN

Calendar Plan Year 2003

SCHEDULE OF REPORTABLE TRANSACTIONS

| (a) Identity of a Party | (b) Description of Asset | (c) Purchase Price | (d) Selling Price | (e) Lease Rental |
|----------------------------|--|--------------------------|-------------------------|------------------------|
| Key Bank | 1 Sale - Victory Stock Index Fund Mutual Fund | N/A | 3,761,665 | N/A |
| Key Bank | 1 Sale - Victory Gradison Government Reserves Fund Class G Mutual Fund | N/A | 3,041,679 | N/A |
| Key Bank | 1 Sale - Victory Diversified Stock A Mutual Fund | N/A | 547,222 | N/A |
| Key Bank | 1 Sale - Dreyfus Midcap Value Mutual Fund | N/A | 323,435 | N/A |
| Key Bank | 1 Sale - Janus WorldWide Fund Mutual Fund | N/A | 1,097,706 | N/A |
| Key Bank | 1 Sale - Janus Adviser International Mutual Fund | N/A | 57,036 | N/A |
| Key Bank | 1 Sale - American Balanced Fund Mutual Fund | N/A | 3,587,559 | N/A |
| Key Bank | 1 Sale - American Funds Growth Fund of Amer A Mutual Fund | N/A | 147,394 | N/A |
| Key Bank | 1 Sale - Franklin Balance Sheet Investment A Mutual Fund | N/A | 367,390 | N/A |
| Key Bank | 1 Sale - Fidelity Advisor Mid Cap T Mutual Fund | N/A | 120,468 | N/A |
| Key Bank | 1 Sale - PIMCO Total Return Admin Mutual Fund | N/A | N/A | N/A |
| Key Bank | 1 Sale - Neuberger Berman Focus Adv Mutual Fund | N/A | 169,045 | N/A |
| Key Bank | 1 Sale - Neuberger Berman Genesis Adv Mutual Fund | N/A | 1,192,791 | N/A |
| Fidelity Investments | 1 Purchase - Retirement Money Market | 3,041,679 | N/A | N/A |
| Fidelity Investments | 1 Purchase - Balanced Fund Mutual Fund | 3,587,559 | N/A | N/A |

HANDLEMAN COMPANY

SALARY DEFERRAL PLAN

Calendar Plan Year 2003

SCHEDULE OF REPORTABLE TRANSACTIONS, continued

| (a) Identity of a Party | (b) Description of Asset | (c) Purchase Price | (d) Selling Price | (e) Lease Rental |
|----------------------------|--|--------------------------|-------------------------|------------------------|
| Fidelity Investments | 1 Purchase - Equity Income II Mutual Fund | 169,045 | N/A | N/A |
| Fidelity Investments | 1 Purchase - Spartan US Equity Index Mutual Fund | 3,761,665 | N/A | N/A |
| Fidelity Investments | 1 Purchase - Contrafund Mutual Fund | 547,222 | N/A | N/A |
| Fidelity Investments | 1 Purchase - Independence Fund Mutual Fund | 147,394 | N/A | N/A |
| Fidelity Investments | 1 Purchase - Value Fund Mutual Fund | 323,435 | N/A | N/A |
| Fidelity Investments | 1 Purchase - Mid-Cap Stock Fund Mutual Fund | 120,468 | N/A | N/A |
| Fidelity Investments | 1 Purchase - Low-Priced Stock Fund Mutual Fund | 367,390 | N/A | N/A |
| Fidelity Investments | 1 Purchase - N & B Guardian Genesis Fund-Trust Class Mutual Fund | 1,192,791 | N/A | N/A |
| Fidelity Investments | Diversified International Mutual Fund | 1,097,706 | N/A | N/A |
| Fidelity Investments | Diversified International Mutual Fund | 57,036 | N/A | N/A |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the Plan) have duly caused this annual report to be signed by the undersigned thereunto duly authorized.

HANDLEMAN COMPANY SALARY DEFERRAL
PLAN

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

Senior Vice President and Chief Financial Officer

Handleman Company

Date: October 29, 2004