

## **CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF HANDLEMAN COMPANY**

This Charter sets forth the duties and responsibilities of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of Handleman Company (the “Company”).

### **Mission Statement**

The Audit Committee’s mission is to assist the Board in fulfilling its oversight responsibility relating to the Company’s financial statements and the financial reporting processes; the systems of internal accounting and financial controls; the internal audit function; the annual independent audit of the Company’s financial statements; the adequacy and effectiveness of the Company’s financially-related legal, regulatory, and ethical compliance programs; and any other areas specified by the Board of potential significant financial risk to the Company.

### **Composition**

The Committee is established by the Board and will consist of three or more members, with the exact number being recommended by the Corporate Governance and Nominating Committee. All members must be independent of the management of the Company, and free of any relationship that would interfere with their exercise of independent judgment as a Committee member. Each of the members of the Committee will be (i) an “independent director” as defined under the rules of the New York Stock Exchange, as may be amended from time to time (ii) a “Non-Employee Director” as defined in Rule 16b-3 promulgated under Section 16 of the Securities and Exchange Act of 1934, as amended, and (iii) an “outside director” under Regulation Section 1.162-27 promulgated under Section 162(m) of the Internal Revenue Code of 1986, as amended.

In addition, in order to be deemed independent of management of the Company, unless the Board of Directors determines otherwise, a member of the Committee cannot have engaged in any transaction or have been involved in any business relationship or otherwise that is described or set forth in Item 404 of Regulation S-K promulgated by the Securities and Exchange Commission.

Each member shall also be financially literate as such qualification is interpreted by the Board in its business judgment, or must become financially literate within a reasonable period of time after the member’s appointment to the Audit Committee. At least one member must have accounting or related financial management expertise as the Board interprets such qualification in its business judgment.

Committee members may not simultaneously serve on audit committees of more than three public companies without Board determination and disclosure in the annual proxy statement that such service would not impair the ability of such member to serve on the Company’s Audit Committee.

The Chairman of the Corporate Governance and Nominating Committee, with the assistance of the Presiding Director and Chairman of the Board, will recommend the annual appointment of the Committee members, as well as the Committee Chair. The Committee membership, including the Chair, will be determined by the entire Board of Directors.

The Committee Chair is responsible for reporting all activities and decisions of the Committee to the Board.

All members of the Committee serve at the discretion of the Board.

In the event a Director becomes disqualified from membership on the Audit Committee, such Director shall be removed as soon as practicable from service on the Audit Committee by the Board. In the event removal, resignation, retirement, death or other termination of a Director from service on the Audit Committee results in the Audit committee comprising less than three members, the Board shall appoint a new qualified Director to the Audit Committee as soon as practicable.

### **Principal Functions**

The Committee provides assistance to the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the systems of internal control, the audit process, and the Company's process for monitoring compliance with laws and regulations and the Company's Code of Business Conduct and Ethics.

The Committee shall:

- a. Review with management and the independent auditors the status of the annual audit prior to releasing the unaudited year-end earnings, as well as the audited financial statements to be included in the Company's annual report on Form 10-K;
- b. Review quarterly unaudited financial statements, including the related earnings press release and any financial information or earnings guidance provided to the analysts or ratings agencies along with the quarterly unaudited financial statements;
- c. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas of potential significance;
- d. Obtain assurance from the independent and internal auditors of the adequacy of the Company's accounting and financial controls;
- e. Review significant legal matters with the Company's legal counsel;
- f. Review management's monitoring of compliance with the Company's Code of Business Conduct and Ethics;
- g. Establish procedures for the receipt, treatment and retention of complaints regarding accounting, internal accounting controls or auditing matters;

- h. Appoint, approve compensation for, and oversee the work of the independent auditors annually, including a review of the auditor's independence, performance and results of periodic audit and non-audit engagements;
- i. Review the budget, staffing, activities, performance and results of examinations of the Internal Audit Department;
- j. Prepare a report annually that is in accordance with the applicable rules and regulations of the SEC for inclusion in the Company's annual proxy statement; and
- k. Report Committee activities to the Board on a periodic basis.

## **Duties and Responsibilities**

The principle duties and responsibilities of the Committee in carrying out its oversight responsibilities are set forth below. The duties and responsibilities are set forth as a guide with the understanding that the Committee may supplement them as appropriate and may establish policies and procedures from time to time that the Committee deems necessary or advisable in fulfilling its responsibilities.

### **A. Financial Reporting Process and Internal Control:**

1. Review with management and the independent auditors the status of the annual audit prior to releasing the unaudited year-end earnings; discuss matters required to be communicated to the Audit Committee in accordance with AICPA Statement on Auditing Standards (SAS) No. 61.
2. Review with management and the independent auditors: the audited financial statements to be included in the Company's Annual Report on Form 10-K and disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations;" qualitative judgments of the independent auditors about the appropriateness, not just the acceptability, of the Company's accounting principles, and the clarity of the financial statements; assurance from the independent auditors that Section 10A of the Securities Exchange Act of 1934 has not been implicated; and major issues regarding auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Company's financial statements. After such review and discussions, recommend to the Board of Directors that the audited financial statements be included in the Form 10-K for such year to be filed with the Securities and Exchange Commission.
3. Review periodically with the independent auditors their judgments about the quality, not just the acceptability, of the Company's accounting principles as applied in its financial reporting, including such issues as the reasonableness of significant judgments and the clarity of the Company's financial disclosures and whether the choices of accounting principles and underlying estimates and other significant decisions made by management in preparing the financial statements are conservative, moderate or aggressive from the perspective of income, asset, revenue and liability recognition and whether those principles, estimates and disclosures are common practices or are minority practices.

4. Review with management and the independent auditors quarterly unaudited financial statements, including the related earnings press release and any financial information or earnings guidance provided to the analysts or ratings agencies; discuss with the independent auditors the results of their review performed in accordance with SAS No. 100 for unaudited financial statements. These discussions may be general, and the Committee will determine if it will discuss each earnings report or piece of earnings guidance in advance of its release. In addition, the Committee's focus may be on the types of information to be disclosed and the type of presentations to be made. The Committee may be represented by the Chair or a subcommittee to review the earnings announcements and other public disclosure documents.
5. Review disclosures made by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q with respect to the financial statements and (a) the adequacy and effectiveness of the Company's disclosure controls and procedures; (b) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting; (c) any fraud involving management or other employees who have a significant role in the Company's disclosure controls and procedures and internal controls, and (d) any change in internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
6. Review audit findings, including any significant issues, audit problems, scope limitations, disagreements with management, and/or suggestions for improvements provided to management by the independent and internal auditors, and obtain management's response to the suggestions from the independent and internal auditors.
7. Review and discuss with management and the independent auditor management's assessment of the effectiveness of internal control over financial reporting and the basis therefore, as well as the independent auditors' attestation of management's assessment, and its audit of the Company's internal control over financial reporting.
8. Review with management and the independent auditors any significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including (i) an analysis of the effect of alternative GAAP methods on the Company's financial statements, (ii) a description of any transactions as to which management obtained SAS No. 50 letters, (iii) any significant changes in the Company's selection or application of accounting principles or policies, (iv) any changes to the methods of application, and (v) any major issues as to the adequacy of the Company's internal controls.

9. Review with the Company's legal counsel: (i) any significant legal matters that could have a material impact on the Company's financial statements; (ii) legal compliance matters, including corporate securities trading policies and material notices to or inquiries received from government agencies; and (iii) reports or evidence of a material violation of securities laws or breaches of fiduciary duty.
10. Review management's monitoring of compliance with the Company's Code of Business Conduct and Ethics.
11. Review policies and procedures with respect to the CEO's and certain other officers' expense accounts, including their use of corporate assets.
12. Establish procedures for receiving, processing and retaining complaints or employee concerns about accounting, internal accounting controls and auditing matters and for the confidential anonymous submission of concerns regarding questionable accounting or auditing matters; review with management and the independent auditors any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the Company's financial statements or accounting policies.
13. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
14. Meet periodically with the independent auditors, the director of internal audit and management in separate executive sessions to discuss any matters that the Audit Committee or these persons believe should be discussed privately with the Committee.

B. Auditing Functions:

1. Review the independence and performance of the independent auditors annually. The independent auditors report directly to the Committee, and the Committee is directly responsible for the appointment, retention, termination, compensation and oversight of the work of the independent auditors, including resolution of disagreements between management and the independent auditors regarding financial reporting. The Committee requires rotation of the lead and concurring audit partners in accordance with applicable requirements.
2. On an annual basis, review and discuss with the independent auditors all significant relationships they have with the Company that could impair the auditors' independence and receive the written disclosures and letter from the independent auditors required by Independence Standards Board No. 1 and the New York Stock Exchange listing standards.

3. Approve the engagement letters and the fees to be paid to the independent auditors. Pre-approve all audit and non-audit services to be provided by the independent auditors and consider the possible effect that these services could have on the independence of such auditors; provided that prohibited non-audit services shall include bookkeeping, information technology design, financial systems design, appraisal or valuation services, actuarial services, internal audit services, management or human resources functions, and legal services or other expert services unrelated to the audit. The Committee may delegate to one or more of its members pre-approval authority of non-audit services in accordance with applicable law and the Charter.
4. Review the arrangements, scope, staffing, timing, cost and results of periodic audits and non-audit engagements conducted by the independent auditors.
5. Review with management and the independent auditors any management letter provided by the auditors and the Company's response to that letter.
6. Receive and review from the independent auditors at least annually a report regarding the internal quality control procedures of the independent auditors including any material issues raised within the preceding five years by any internal quality review or peer review of the firm, or by any inquiry or investigation by environmental or professional authorities, as well as describing the steps the firm has taken to deal with any reported problems.
7. Review and approve the annual and quarterly plans for internal audit, including staffing/ appointments, and major projects undertaken by internal audit outside of the plan.
8. Review the scope, status and results of examinations conducted by the Company's internal auditors.
9. Review the budget, program, changes in program, activities, strategies, organizational structure and qualifications of the Internal Audit Department, as needed, it being understood that the Internal Audit Department functionally reports directly to the Committee. Evaluate whether the Internal Audit Department operation and structure permits unrestricted access by internal auditors to records, personnel, and physical properties relevant to the performance of its responsibilities and to top management, the Committee and the Board. Assess the appropriateness of the resources allocated to internal auditing. Evaluate the effectiveness of the internal audit function with the independent auditors and compliance with the Institute of Internal Auditor's Standards for the Professional Practice of Internal Auditing.
10. Review the appointment, performance and replacement of the chief internal auditor. Decisions regarding hiring or termination of the chief internal auditor require endorsement by the Committee. The chairperson of the Committee will also be involved in performance evaluation and compensation decisions related to the chief internal auditor.
11. Set clear hiring policies for employees or former employees of the independent auditors who participated in any capacity in the audit of the Company.

C. Reporting Requirements:

1. The Audit Committee shall prepare the report required by the Securities and Exchange Committee to be included in the Company's annual proxy statement. The Committee will also disclose in the Annual Report and proxy statement the Audit Committee's preapproval policies and procedures and fees paid to the independent accountants in accordance with Securities and Exchange Commission regulations.
2. The Audit Committee shall review and reassess the adequacy of the Audit Committee Charter on an annual basis and any changes thereto shall be submitted to the Board for approval. The Audit Committee shall have the Charter published at least every third year in the Company's proxy statement in accordance with Securities and Exchange Commission regulations.
3. The Audit Committee shall assess its performance at least annually and report the results to the Board.
4. On an annual basis or upon changes to the composition of the Audit Committee, the Company must provide the New York Stock Exchange written confirmation regarding:
  - a. The determination made by the Board regarding Audit Committee member independence.
  - b. The financial literacy of Audit Committee members.
  - c. The determination that at least one Audit Committee member has accounting or financial management expertise including the name of any designated Audit Committee financial expert under Securities and Exchange Commission regulation.
  - d. The review and reassessment of the adequacy of this Charter on an annual basis including describing and reporting to the shareholders the Committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.

D. Perform any other duties or responsibilities expressly delegated to the Committee by the Board including any duties or responsibilities as set forth in the Corporate Governance Guidelines.

E. While the Audit Committee has the duties and responsibilities set forth in this Charter, it is not the duty or responsibility of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are prepared in accordance with generally accepted accounting principles. These duties and responsibilities rest with management and the independent auditors.

The duties and responsibilities set forth above are meant to serve as a guide, with the understanding that the Committee may diverge from the specific duties enumerated as necessary and appropriate given the circumstances.

### **Committee Authority**

The Committee shall undertake any other action or exercise such other powers, authority and responsibilities as necessary or appropriate to discharge its responsibilities and duties as set forth in this Charter or the Company's By-laws, or otherwise required by the Listing Rules of the New York Stock Exchange or other applicable laws, rules or regulations, or as shall otherwise be determined by the Board.

In discharging its responsibilities and duties, the Committee is empowered to investigate any matter brought to its attention that it determines to be within the scope of its authority with full access to all books, records, facilities and personnel of the Company. The Committee has the power to retain outside counsel or other consultants or experts as the committee may deem appropriate in its sole discretion, and shall receive funding from the Company to engage such advisors, and have sole authority to approve related fees and retention terms.

The Committee may delegate authority to individuals or subcommittees when it deems appropriate.

### **Meetings**

The Audit Committee will meet quarterly and at such other times as may be deemed necessary or appropriate in the judgment of its Chairman to accomplish the Committee's responsibilities. In lieu of a meeting, the Committee may also act by unanimous written consent resolution. Committee meeting procedures include the following guidelines:

1. A majority of the Committee members will be deemed a quorum for the transaction of business. The Chairman may appoint one or more members of the Board to act at a meeting in place of an absent member or members, as long as each such member appointed is an independent director as defined by applicable New York Stock Exchange rules. Such appointed Director(s) may vote on any matter coming before the Audit Committee. For purposes of determining a quorum, the size of the Committee shall not be deemed increased by the appointment of any replacement member or members.
2. The action of a majority of those present at a meeting at which a quorum is present will represent an act of the Committee.
3. The CFO will be the management liaison to the Committee.
4. The Chairperson of the Audit Committee shall select the meeting dates after consultation with other members of the Committee.
5. The Committee Chairperson shall prepare and/or approve an agenda in advance of each meeting.



6. The agenda and all materials to be reviewed at the meetings will be provided to the Committee members as far in advance of the meeting as practicable.
7. If the Chairperson is not available for a meeting, the other members of the Committee may appoint a temporary Chairperson for such meeting.
8. The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary.
9. All Directors shall be invited to all Audit Committee meetings.
10. The Chairperson of the Audit Committee may call a meeting of the full Board at the request of and for the purpose of meeting with the Company's independent auditors and may call a meeting of the full Board to consider any other matters within the purview of the Audit Committee.
11. Minutes of any Audit Committee meetings shall be provided to all Directors following the Audit Committee meeting and shall be submitted for the next Board meeting, at which time the Chairperson of the Audit Committee will provide additional comments as appropriate.