BANK OF NOVA SCOTIA
Form 424B2
February 19, 2019

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Registration No. 333-228614
The Bank of Nova Scotia
$8,336,000 Capped Buffered Enhanced Participation Notes
Linked to the MSCI EAFE® Index Due April 14, 2021

The notes do not bear interest. The amount that you will be paid on your notes at maturity (April 14, 2021) is based on the performance of the MSCI EAFE® Index (the reference asset) as measured from the trade date (February 14, 2019) to and including the valuation date (April 12, 2021).

If the final level on the valuation date is greater than the initial level of 1,828.80, the return on your notes will be positive and will equal 1.9 times the percentage change, subject to the maximum payment amount of $1,290.70 for each $1,000 principal amount of your notes. If the final level declines by up to 15.00% from the initial level, you will receive the principal amount of your notes. If the final level declines by more than 15.00% from the initial level, the return on your notes will be negative and you may lose your entire principal amount. Specifically, you will lose approximately 1.1765% for every 1% negative percentage change below 85.00% of the initial level. Any payment on your notes is subject to the creditworthiness of The Bank of Nova Scotia.

To determine your payment at maturity, we will first calculate the percentage change, which is the percentage increase or decrease in the final level from the initial level. At maturity, for each $1,000 principal amount of your notes:

if the final level is greater than the initial level (the percentage change is positive), you will receive an amount in cash equal to the sum of (i) $1,000 plus (ii) the product of (a) $1,000 times (b) the percentage change times (c) 190%, subject to the maximum payment amount;

if the final level is equal to the initial level or less than the initial level, but not by more than 15.00% (the percentage change is zero or negative but equal to or greater than -15.00%), you will receive an amount in cash equal to $1,000; or

if the final level is less than the initial level by more than 15.00% (the percentage change is negative and is less than -15.00%), you will receive an amount in cash equal to the sum of (i) $1,000 plus (ii) the product of (a) $1,000 times (b) the buffer rate of approximately 117.65% times (c) the sum of the percentage change plus 15.00%.

Following the determination of the initial level, the amount you will be paid on your notes at maturity will not be affected by the closing level of the reference asset on any day other than the valuation date. In addition, no payments on your notes will be made prior to maturity.

Investment in the notes involves certain risks. You should refer to "Additional Risks" beginning on page P-15 of this pricing supplement and "Additional Risk Factors Specific to the Notes" beginning on page PS-6 of the accompanying product prospectus supplement and "Risk Factors" beginning on page S-2 of the accompanying prospectus supplement and on page 5 of the accompanying prospectus.

The initial estimated value of your notes at the time the terms of your notes were set on the trade date was $993.50 per $1,000 principal amount, which is less than the original issue price of your notes listed below. See "Additional Information Regarding Estimated Value of the Notes" on the following page and "Additional Risks" beginning on page P-15 of this document for additional information. The actual value of your notes at any time will reflect many factors and cannot be predicted with accuracy.

	Per Note	Total
Original Issue Price	100.00%	$8,336,000.00
Underwriting commissions	0.00%	$0.00
Proceeds to The Bank of Nova Scotia	100.00%	$8,336,000.00

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE NOTES OR PASSED UPON THE ACCURACY OR THE ADEQUACY OF THIS PRICING SUPPLEMENT, THE ACCOMPANYING PROSPECTUS, ACCOMPANYING PROSPECTUS SUPPLEMENT OR ACCOMPANYING PRODUCT

PROSPECTUS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE. THE NOTES ARE NOT INSURED BY THE CANADA DEPOSIT INSURANCE CORPORATION (THE "CDIC") PURSUANT TO THE CANADA DEPOSIT INSURANCE CORPORATION ACT (THE "CDIC ACT") OR THE U.S. FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY OF CANADA, THE UNITED STATES OR ANY OTHER JURISDICTION.

Scotia Capital (USA) Inc.

Pricing Supplement dated February 14, 2019

The Capped Buffered Enhanced Participation Notes Linked to the MSCI EAFE® Index Due April 14, 2021 (the "notes") offered hereunder are unsubordinated and unsecured obligations of The Bank of Nova Scotia (the "Bank") and are subject to investment risks including possible loss of the principal amount invested due to the negative performance of the reference asset and the credit risk of The Bank of Nova Scotia. As used in this pricing supplement, the "Bank," "we," "us" or "our" refers to The Bank of Nova Scotia. The notes will not be listed on any U.S. securities exchange or automated quotation system.

The return on your notes will relate to the price return of the reference asset and will not include a total return or dividend component. The notes are derivative products based on the performance of the reference asset. The notes do not constitute a direct investment in any of the shares, units or other securities represented by the reference asset. By acquiring the notes, you will not have a direct economic or other interest in, claim or entitlement to, or any legal or beneficial ownership of any such share, unit or security and will not have any rights as a shareholder, unitholder or other security holder of any of the issuers including, without limitation, any voting rights or rights to receive dividends or other distributions.

Scotia Capital (USA) Inc. ("SCUSA"), our affiliate, has agreed to purchase the notes from us for distribution to one or more registered broker dealers. SCUSA or any of its affiliates or agents may use this pricing supplement in market-making transactions in notes after their initial sale. Unless we, SCUSA or another of our affiliates or agents selling such notes to you informs you otherwise in the confirmation of sale, this pricing supplement is being used in a market-making transaction. See "Supplemental Plan of Distribution (Conflicts of Interest)" in this pricing supplement and "Supplemental Plan of Distribution (Conflicts of Interest)" on page PS-36 of the accompanying product prospectus supplement.

The original issue price, commissions and proceeds to the Bank listed above relate to the notes we issue initially. We may decide to sell additional notes after the date of this pricing supplement, at original issue prices and with commissions and proceeds to the Bank that differ from the amounts set forth above. The return (whether positive or negative) on your investment in the notes will depend in part on the original issue price you pay for such notes.

Additional Information Regarding Estimated Value of the Notes

On the cover page of this pricing supplement, the Bank has provided the initial estimated value for the notes. This estimated value was determined by reference to the Bank's internal pricing models, which take into consideration certain factors, such as the Bank's internal funding rate on the trade date and the Bank's assumptions about market parameters. For more information about the initial estimated value, see "Additional Risks" beginning on page P-15. The economic terms of the notes (including the maximum payment amount) are based on the Bank's internal funding rate, which is the rate the Bank would pay to borrow funds through the issuance of similar market-linked notes, any underwriting discount and the economic terms of certain related hedging arrangements. Due to these factors, the original issue price you pay to purchase the notes is greater than the initial estimated value of the notes. The Bank's internal funding rate is typically lower than the rate the Bank would pay when it issues conventional fixed rate debt securities as discussed further under "Additional Risks — Neither the Bank's nor SCUSA's estimated value of the notes at any time is determined by reference to credit spreads or the borrowing rate the Bank would pay for its conventional fixed-rate debt securities". The Bank's use of its internal funding rate reduces the economic terms of the notes to you.

The value of your notes at any time will reflect many factors and cannot be predicted; however, the price (not including SCUSA's customary bid and ask spreads) at which SCUSA would initially buy or sell notes in the secondary market (if SCUSA makes a market, which it is not obligated to do) is equal to approximately SCUSA's estimate of the market value of your notes on the trade date, based on its pricing models and taking into account the Bank's internal funding rate, plus an additional amount (initially equal to $6.50 per $1,000 principal amount).

Prior to May 14, 2019, the price (not including SCUSA's customary bid and ask spreads) at which SCUSA would buy or sell your notes (if it makes a market, which it is not obligated to do) will equal approximately the sum of (a) the then-current estimated value of your notes (as determined by reference to SCUSA's pricing models) plus (b) any remaining additional amount (the additional amount will decline to zero on a straight-line basis from the time of pricing through May 13, 2019). On and after May 14, 2019, the price (not including SCUSA's customary bid and ask spreads) at which SCUSA would buy or sell your notes (if it makes a market) will equal approximately the then-current estimated value of your notes determined by reference to such pricing models. For additional information regarding the price at which SCUSA would buy or sell your notes (if SCUSA makes a market, which it is not obligated to do), each based on SCUSA's pricing models; see "Additional Risks — The price at which SCUSA would buy or sell your notes (if SCUSA makes a market, which it is not obligated to do) is based on SCUSA's estimated value of your notes".

We urge you to read the "Additional Risks" beginning on page P-15 of this pricing supplement.

Summary

The information in this "Summary" section is qualified by the more detailed information set forth in this pricing supplement, the accompanying prospectus, accompanying prospectus supplement, and accompanying product prospectus supplement, each filed with the Securities and Exchange Commission ("SEC"). See "Additional Terms of Your Notes" in this pricing supplement.

Issuer:	The Bank of Nova Scotia (the "Bank")
Issue:	Senior Note Program, Series A
CUSIP/ISIN:	CUSIP: 064159NJ1 / ISIN: US064159NJ17
Type of Notes:	Capped Buffered Enhanced Participation Notes
Reference Asset:	The MSCI EAFE® Index (Bloomberg Ticker: MXEA)
Minimum Investment and Denominations:	$1,000 and integral multiples of $1,000 in excess thereof
Principal Amount:	$1,000 per note; $8,336,000 in the aggregate for all the offered notes; the aggregate principal amount of the offered notes may be increased if the Bank, at its sole option, decides to sell an additional amount of the offered notes on a date subsequent to the date of this pricing supplement.
Original Issue Price:	100% of the principal amount of each note
Currency:	U.S. dollars
Trade Date:	February 14, 2019
Original Issue Date:	February 20, 2019 Delivery of the notes will be made against payment therefor on or about the 3rd business day following the date of pricing of the notes (this settlement cycle being referred to as “T+3”). Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days (“T+2”), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on or prior to the business day after the trade date will be required, by virtue of the fact that each note initially will settle in three business days (T+3), to specify alternative settlement arrangements to prevent a failed settlement.
Valuation Date:	April 12, 2021 The valuation date could be delayed by the occurrence of a market disruption event. See "General Terms of the Notes—Market Disruption Events" beginning on page PS-20 in the accompanying product prospectus supplement. Further, if the valuation date is not a trading day, the valuation date will be postponed in the same manner as if a market disruption event has occurred.

Maturity Date:	April 14, 2021, subject to adjustment due to a market disruption event, a non-trading day or a non-business day as described in more detail under "General Terms of the Notes—Maturity Date" on page PS-18 in the accompanying product prospectus supplement.
Principal at Risk:	You may lose all or a substantial portion of your initial investment at maturity if there is a percentage decrease from the initial level to the final level of more than 15.00%.

Purchase at amount other than principal amount:	The amount we will pay you on the maturity date for your notes will not be adjusted based on the original issue price you pay for your notes, so if you acquire notes at a premium (or discount) to the principal amount and hold them to the maturity date, it could affect your investment in a number of ways. The return on your investment in such notes will be lower (or higher) than it would have been had you purchased the notes at the principal amount. Also, the stated buffer level would not offer the same measure of protection to your investment as would be the case if you had purchased the notes at the principal amount. Additionally, the maximum payment amount would be triggered at a lower (or higher) percentage return than indicated below, relative to your initial investment. See "Additional Risks—If you purchase your notes at a premium to the principal amount, the return on your investment will be lower than the return on notes purchased at the principal amount and the impact of certain key terms of the notes will be negatively affected" beginning on page P-19 of this pricing supplement.
Fees and Expenses:	As part of the distribution of the notes, SCUSA or one of our affiliates has agreed to sell the notes to certain unaffiliated securities dealers at the original issue price per note specified on the cover hereof. See "Supplemental Plan of Distribution (Conflicts of Interest)" in this pricing supplement. The price at which you purchase the notes includes costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the notes, as set forth below under "Supplemental Plan of Distribution (Conflicts of Interest)". These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the notes. As a result, you may experience an immediate and substantial decline in the market value of your notes on the trade date. See "Additional Risks—Hedging activities by the Bank and SCUSA may negatively impact investors in the notes and cause our respective interests and those of our clients and counterparties to be contrary to those of investors in the notes" in this pricing supplement.
Payment at Maturity:	The payment at maturity, for each $1,000 principal amount of notes, will be based on the performance of the reference asset and will be calculated as follows: · If the final level is greater than the initial level, then the payment at maturity will equal: o The lesser of (a) principal amount + [principal amount x percentage change x participation rate] and (b) maximum payment amount · If the final level is greater than or equal to the buffer level, but less than or equal to the initial level, then the payment at maturity will equal the principal amount · If the final level is less than the buffer level, then the payment at maturity will equal: o principal amount + [principal amount x buffer rate x (percentage change + buffer percentage)] In this case you will suffer a percentage loss on your initial investment equal to the buffer rate multiplied by the negative percentage change in excess of the buffer percentage. Accordingly, you could lose up to 100% of your initial investment.
Closing Level:	When we refer to the closing level of the reference asset on any trading day, we mean the closing level of the reference asset or any successor index reported by Bloomberg Professional® service ("Bloomberg"), or any successor reporting service we may select,

	on such trading day for the reference asset. Currently, Bloomberg reports the closing level of the reference asset to fewer decimal places than MSCI Inc., the sponsor of the reference asset (the "sponsor"). As a result, the closing level of the reference asset reported by Bloomberg generally may be lower or higher than the official closing level of the reference asset published by the sponsor.
Initial Level:	1,828.80, which was the closing level of the reference asset on the trade date.
Final Level:	The closing level of the reference asset on the valuation date. In certain special circumstances, the final level will be determined by the calculation agent, in its discretion. See "General Terms of the Notes—Unavailability of the Level of the Reference Asset on a Valuation Date" beginning on page PS-19 and "General Terms of the Notes—Market Disruption Events" beginning on page PS-20 in the accompanying product prospectus supplement.
Percentage Change:	The percentage change, expressed as a percentage, with respect to the payment at maturity, is calculated as follows: $\frac{\text{final level} - \text{initial level}}{\text{initial level}}$ For the avoidance of doubt, the percentage change may be a negative value.
Participation Rate:	190.00%
Buffer Level:	85.00% of the initial level
Buffer Percentage:	15.00%
Buffer Rate:	The quotient of the initial level divided by the buffer level, which equals approximately 117.65%
Maximum Payment Amount:	$1,290.70 for each $1,000 principal amount of your notes, which equals principal amount x 129.07%. The maximum payment amount sets a cap on appreciation of the reference asset of 15.30%.
Form of Notes:	Book-entry
Calculation Agent:	Scotia Capital Inc., an affiliate of the Bank
Status:	The notes will constitute direct, unsubordinated and unsecured obligations of the Bank ranking pari passu with all other direct, unsecured and unsubordinated indebtedness of the Bank from time to time outstanding (except as otherwise prescribed by law). Holders will not have the benefit of any insurance under the provisions of the CDIC Act, the U.S. Federal Deposit Insurance Act or under any other deposit insurance regime of any jurisdiction.
Tax Redemption:	The Bank (or its successor) may redeem the notes, in whole but not in part, at a redemption price determined by the calculation agent in a manner reasonably calculated to preserve your and our relative economic position, if it is determined that changes in tax laws or their interpretation will result in the Bank (or its successor) becoming

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	obligated to pay additional amounts with respect to the notes. See "Tax Redemption" in the accompanying product prospectus supplement.
Listing:	The notes will not be listed on any securities exchange or quotation system.
Use of Proceeds:	General corporate purposes
Clearance and Settlement:	Depository Trust Company
Trading Day:	A day on which the reference asset is calculated and published by the sponsor of the reference asset (the "sponsor"), regardless of whether one or more of the principal securities markets for the stocks comprising the reference asset (the "reference asset constituent stocks") are closed on that day.
Business Day:	New York and Toronto
Terms Incorporated:	All of the terms appearing above the item under the caption "General Terms of the Notes" beginning on page PS-15 in the accompanying product prospectus supplement, as modified by this pricing supplement.
Canadian Bail-in:	The notes are not bail-inable debt securities under the CDIC Act.

INVESTING IN THE NOTES INVOLVES SIGNIFICANT RISKS. YOU MAY LOSE ALL OR A SUBSTANTIAL PORTION OF YOUR INVESTMENT. ANY PAYMENT ON THE NOTES, INCLUDING ANY REPAYMENT OF PRINCIPAL, IS SUBJECT TO THE CREDITWORTHINESS OF THE BANK. IF THE BANK WERE TO DEFAULT ON ITS PAYMENT OBLIGATIONS YOU MAY NOT RECEIVE ANY AMOUNTS OWED TO YOU UNDER THE NOTES AND YOU COULD LOSE YOUR ENTIRE INVESTMENT.

ADDITIONAL TERMS OF YOUR NOTES

You should read this pricing supplement together with the prospectus dated December 26, 2018, as supplemented by the prospectus supplement dated December 26, 2018 and the product prospectus supplement (Equity Linked Index Notes, Series A) dated December 26, 2018, relating to our Senior Note Program, Series A, of which these notes are a part. Capitalized terms used but not defined in this pricing supplement will have the meanings given to them in the product prospectus supplement. In the event of any conflict between this pricing supplement and any of the foregoing, the following hierarchy will govern: first, this pricing supplement; second, the accompanying product prospectus supplement; third, the prospectus supplement; and last, the prospectus. The notes may vary from the terms described in the accompanying prospectus, accompanying prospectus supplement and accompanying product prospectus supplement in several important ways. You should read this pricing supplement carefully, including the documents incorporated by reference herein.

This pricing supplement, together with the documents listed below, contains the terms of the notes and supersedes all prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in "Additional Risk Factors Specific to the Notes" in the accompanying product prospectus supplement, as the notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the notes. You may access these documents on the SEC website at www.sec.gov as follows (or if that address has changed, by reviewing our filings for the relevant date on the SEC website.

Product Prospectus Supplement (Equity Linked Index Notes, Series A) dated December 26, 2018:
http://www.sec.gov/Archives/edgar/data/9631/000091412118002483/bn50682441-424b2.htm

Prospectus Supplement dated December 26, 2018:
http://www.sec.gov/Archives/edgar/data/9631/000091412118002473/bn50676984-424b3.htm

Prospectus dated December 26, 2018:

http://www.sec.gov/Archives/edgar/data/9631/000119312518357537/d677731d424b3.htm

INVESTOR SUITABILITY

The notes may be suitable for you if:

- You fully understand the risks inherent in an investment in the notes, including the risk of losing all or a substantial portion of your initial investment.
- You can tolerate a loss of up to 100% of your initial investment.
- You are willing to make an investment that, if the final level of the reference asset is less than the buffer level, has an accelerated downside risk greater than the downside market risk of an investment in the reference asset or in the reference asset constituent stocks.
- You believe that the level of the reference asset will appreciate over the term of the notes and that the appreciation is unlikely to exceed the cap on appreciation within the maximum payment amount.
- You are willing to hold the notes to maturity, a term of approximately 26 months, and accept that there may be little or no secondary market for the notes.
- You understand and accept that your potential return is limited to the maximum payment amount and you are willing to invest in the notes based on the maximum payment amount indicated on the cover hereof.
- You can tolerate fluctuations in the price of the notes prior to maturity that may be similar to or exceed the downside fluctuations in the level of the reference asset or in the price of its reference asset constituent stocks.
- You do not seek current income from your investment.
- You seek an investment with exposure to companies in the developed markets of Europe, Asia, Australia and the Far East.
- You are willing to assume the credit risk of the Bank for all payments under the notes, and understand that if the Bank defaults on its obligations you may not receive any amounts due to you including any repayment of principal.

The notes may not be suitable for you if:

- You do not fully understand the risks inherent in an investment in the notes, including the risk of losing all or a substantial portion of your initial investment.
- You require an investment designed to guarantee a full return of principal at maturity.
- You cannot tolerate a loss of all or a substantial portion of your initial investment.
- You are not willing to make an investment that, if the final level of the reference asset is less than the buffer level, has an accelerated downside risk greater than the downside market risk of an investment in the reference asset or in the reference asset constituent stocks.
- You believe that the level of the reference asset will decline during the term of the notes and the final level will likely be less than the buffer level, or you believe the level of the reference asset will appreciate over the term of the notes and that the appreciation is likely to equal or exceed the cap on appreciation within the maximum payment amount.

- You seek an investment that has unlimited return potential without a cap on appreciation or you are unwilling to invest in the notes based on the maximum payment amount indicated on the cover hereof.

- You cannot tolerate fluctuations in the price of the notes prior to maturity that may be similar to or exceed the downside fluctuations in the level of the reference asset or in the price of its reference asset constituent stocks.

- You seek current income from your investment or prefer to receive dividends paid on the reference asset constituent stocks.

- You are unable or unwilling to hold the notes to maturity, a term of approximately 26 months, or you seek an investment for which there will be a secondary market.

- You do not seek an investment with exposure to companies in the developed markets of Europe, Asia, Australia and the Far East.

- You are not willing to assume the credit risk of the Bank for all payments under the notes.

The investor suitability considerations identified above are not exhaustive. Whether or not the notes are a suitable investment for you will depend on your individual circumstances and you should reach an investment decision only after you and your investment, legal, tax, accounting and other advisors have carefully considered the suitability of an investment in the notes in light of your particular circumstances. You should also review "Additional Risks" in this pricing supplement and the "Additional Risk Factors Specific to the Notes" beginning on page PS-6 of the accompanying product prospectus supplement and "Risk Factors" beginning on page S-2 of the accompanying prospectus supplement and on page 5 of the accompanying prospectus for risks related to an investment in the notes.

HYPOTHETICAL PAYMENTS AT MATURITY ON THE NOTES

The examples set out below are included for illustration purposes only. They should not be taken as an indication or prediction of future investment results and are intended merely to illustrate the impact that the various hypothetical reference asset levels on the valuation date could have on the payment at maturity assuming all other variables remain constant.

The examples below are based on a range of final levels that are entirely hypothetical; the level of the reference asset on any day throughout the life of the notes, including the final level on the valuation date, cannot be predicted. The reference asset has been highly volatile in the past, meaning that the level of the reference asset has changed considerably in relatively short periods, and its performance cannot be predicted for any future period.

The information in the following examples reflects hypothetical rates of return on the offered notes assuming that they are purchased on the original issue date at the principal amount and held to the maturity date. If you sell your notes in a secondary market prior to the maturity date, your return will depend upon the market value of your notes at the time of sale, which may be affected by a number of factors that are not reflected in the examples below, such as interest rates, the volatility of the reference asset and our creditworthiness. In addition, the estimated value of your notes at the time the terms of your notes were set on the trade date (as determined by reference to pricing models used by us) is less than the original issue price of your notes. For more information on the estimated value of your notes, see "Additional Risks— The Bank's initial estimated value of the notes at the time of pricing (when the terms of your notes were set on the trade date) is lower than the original issue price of the notes" on page P-15 of this pricing supplement. The information in the examples also reflect the key terms and assumptions in the box below.

Key Terms and Assumptions	
Principal amount	$1,000
Participation rate	190.00%
Maximum payment amount	$1,290.70 for each $1,000 principal amount of your notes
Buffer level	85.00% of the initial level
Buffer percentage	15.00%
Buffer rate	approximately 117.65%
Neither a market disruption event nor a non-trading day occurs on the originally scheduled valuation date	
No change in or affecting any of the reference asset constituent stocks or the method by which the sponsor calculates the reference asset	
Notes purchased on the original issue date at the principal amount and held to the maturity date	

The actual performance of the reference asset over the life of your notes, as well as the amount payable at maturity, if any, may bear little relation to the hypothetical examples shown below or to the historical levels of the reference asset shown elsewhere in this pricing supplement. For information about the historical levels of the reference asset, see "Information Regarding the Reference Asset—Historical Information" below.

Also, the hypothetical examples shown below do not take into account the effects of applicable taxes. Because of the U.S. tax treatment applicable to your notes, tax liabilities could affect the after-tax rate of return on your notes to a comparatively greater extent than the after-tax return on the reference asset constituent stocks.

The levels in the left column of the table below represent hypothetical final levels and are expressed as percentages of the initial level. The amounts in the right column represent the hypothetical payment at maturity, based on the corresponding hypothetical final level, and are expressed as percentages of the principal amount of a note (rounded to the nearest one-thousandth of a percent). Thus, a hypothetical payment at maturity of 100.000% means that the value of the cash payment that we would pay for each $1,000 of the outstanding principal amount of the offered notes on the maturity date would equal 100.000% of the principal amount of a note, based on the corresponding hypothetical final level and the assumptions noted above.

Hypothetical Final Level (as Percentage of Initial Level)	Hypothetical Payment at Maturity (as Percentage of Principal Amount)
150.000%	129.070%
140.000%	129.070%
130.000%	129.070%
120.000%	129.070%
115.300%	129.070%
110.000%	119.000%
105.000%	109.500%
100.000%	100.000%
95.000%	100.000%
90.000%	100.000%
85.000%	100.000%
80.000%	94.118%
70.000%	82.353%
60.000%	70.588%
50.000%	58.824%
25.000%	29.412%
0.000%	0.000%

If, for example, the final level were determined to be 25.000% of the initial level, the payment at maturity that we would pay on your notes at maturity would be approximately 29.412% of the principal amount of your notes, as shown in the table above. As a result, if you purchased your notes on the original issue date at the principal amount and held them to the maturity date, you would lose approximately 70.588% of your investment (if you purchased your notes at a premium to the principal amount you would lose a correspondingly higher percentage of your investment). If the final level were determined to be 0.000% of the initial level, you would lose 100.000% of your investment in the notes. In addition, if the final level were determined to be 150.000% of the initial level, the payment at maturity that we would pay on your notes would be capped at the maximum payment amount, or 129.070% of each $1,000 principal amount of your notes, as shown in the table above. As a result, if you held your notes to the maturity date, you would not benefit from any increase in the final level of greater than 115.300% of the initial level.

The following chart shows a graphical illustration of the hypothetical payment at maturity that we would pay on your notes on the maturity date, if the final level were any of the hypothetical levels shown on the horizontal axis. The hypothetical payments at maturity in the chart are expressed as percentages of the principal amount of your notes and the hypothetical final levels are expressed as percentages of the initial level. The chart shows that any hypothetical final level of less than 85.000% (the section left of the 85.000% marker on the horizontal axis) would result in a hypothetical payment at maturity of less than 100.000% of the principal amount of your notes (the section below the 100.000% marker on the vertical axis) and, accordingly, in a loss of principal to the holder of the notes. The chart also shows that any hypothetical final level of greater than or equal to 115.300% (the section right of the 115.300% marker on the horizontal axis) would result in a capped return on your investment.

The following examples illustrate the calculation of the payment at maturity based on the key terms and assumptions above. The amounts below have been rounded for ease of analysis.

Example 1—Calculation of the payment at maturity where the percentage change is positive.

Percentage Change:	5.00%
Payment at Maturity:	$1,000.00 + ($1,000.00 x 190.00% x 5.00%) = $1,000.00 + $95.00 = $1,095.00

On a $1,000.00 investment, a 5.00% percentage change results in a payment at maturity of $1,095.00.

Example 2— Calculation of the payment at maturity where the percentage change is positive and the payment at maturity is subject to the maximum payment amount.

Percentage Change:	50.00%
Payment at Maturity:	$1,000.00 + ($1,000.00 x 190.00% x 50.00%) = $1,000.00 + $950.00 = $1,950.00. However, the maximum payment amount is $1,290.70 and the payment at maturity would be $1,290.70.

On a $1,000.00 investment, a 50.00% percentage change results in a payment at maturity of $1,290.70.

Example 3— Calculation of the payment at maturity where the percentage change is negative but is equal to or greater than -15.00%.

Percentage Change:	-8.00%
Payment at Maturity:	$1,000.00 (at maturity, if the percentage change is negative BUT the decrease is not more than the buffer percentage, then the payment at maturity will equal the principal amount).

On a $1,000.00 investment, a -8.00% percentage change results in a payment at maturity of $1,000.00.

Example 4—Calculation of the payment at maturity where the percentage change is negative and is less than -15.00%.

Percentage Change:	-50.00%
Payment at Maturity:	$1,000.00 + [$1,000.00 x 117.65% x (-50.00% + 15.00%)] = $1,000.00 - $411.76 = $588.24

On a $1,000.00 investment, a -50.00% percentage change results in a payment at maturity of approximately $588.24.

Accordingly, if the percentage change is less than -15.00%, the Bank will pay you less than the full principal amount, resulting in a percentage loss on your investment that is equal to the buffer rate multiplied by the negative percentage change in excess of the buffer percentage. You may lose up to 100% of your principal amount.

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Any payment on the notes, including any repayment of principal, is subject to the creditworthiness of the Bank. If the Bank were to default on its payment obligations, you may not receive any amounts owed to you under the notes and you could lose your entire investment.

The payments at maturity shown above are entirely hypothetical; they are based on hypothetical levels of the reference asset that may not be achieved on the valuation date and on assumptions that may prove to be erroneous. The actual market value of your notes on the maturity date or at any other time, including any time you may wish to sell your notes, may bear little relation to the hypothetical payments at maturity shown above, and these amounts should not be viewed as an indication of the financial return on an investment in the offered notes. The hypothetical payments at maturity on the notes held to the maturity date in the examples above assume you purchased your notes at their principal amount and have not been adjusted to reflect the actual original issue price you pay for your notes. The return on your investment (whether positive or negative) in your notes will be affected by the amount you pay for your notes. If you purchase your notes for a price other than the principal amount, the return on your investment will differ from, and may be significantly lower than, the hypothetical returns suggested by the above examples. Please read "Additional Risks—The price at which the notes may be sold prior to maturity will depend on a number of factors and may be substantially less than the amount for which they were originally purchased" on page P-20 of this pricing supplement.

Payments on the notes are economically equivalent to the amounts that would be paid on a combination of other instruments. For example, payments on the notes are economically equivalent to a combination of a non-interest-bearing bond bought by the holder and one or more options entered into between the holder and us (with one or more implicit option premiums paid over time). The discussion in this paragraph does not modify or affect the terms of the notes or the U.S. federal income tax treatment of the notes, as described elsewhere in this pricing supplement.

We cannot predict the actual final level or what the market value of your notes will be on any particular trading day, nor can we predict the relationship between the level of the reference asset and the market value of your notes at any time prior to the maturity date. The actual amount that you will receive, if any, at maturity and the rate of return on the offered notes will depend on the actual final level to be determined by the calculation agent as described above. Moreover, the assumptions on which the hypothetical returns are based may turn out to be inaccurate. Consequently, the amount of cash to be paid in respect of your notes, if any, on the maturity date may be very different from the information reflected in the examples above.

ADDITIONAL RISKS

An investment in the notes involves significant risks. In addition to the following risks included in this pricing supplement, we urge you to read "Additional Risk Factors Specific to the Notes" beginning on page PS-6 of the accompanying product prospectus supplement and "Risk Factors" beginning on page S-2 of the accompanying prospectus supplement and page 5 of the accompanying prospectus.

You should understand the risks of investing in the notes and should reach an investment decision only after careful consideration, with your advisors, of the suitability of the notes in light of your particular financial circumstances and the information set forth in this pricing supplement and the accompanying prospectus, accompanying prospectus supplement and accompanying product prospectus supplement.

The Bank's initial estimated value of the notes at the time of pricing (when the terms of your notes were set on the trade date) is lower than the original issue price of the notes

The Bank's initial estimated value of the notes is only an estimate. The original issue price of the notes exceeds the Bank's initial estimated value. The difference between the original issue price of the notes and the Bank's initial estimated value reflects costs associated with selling and structuring the notes, as well as hedging its obligations under the notes with a third party.

Neither the Bank's nor SCUSA's estimated value of the notes at any time is determined by reference to credit spreads or the borrowing rate the Bank would pay for its conventional fixed-rate debt securities

The Bank's initial estimated value of the notes and SCUSA's estimated value of the notes at any time are determined by reference to the Bank's internal funding rate. The internal funding rate used in the determination of the estimated value of the notes generally represents a discount from the credit spreads for the Bank's conventional fixed-rate debt securities and the borrowing rate the Bank would pay for its conventional fixed-rate debt securities. This discount is based on, among other things, the Bank's view of the funding value of the notes as well as the higher issuance, operational and ongoing liability management costs of the notes in comparison to those costs for the Bank's conventional fixed-rate debt. If the interest rate implied by the credit spreads for the Bank's conventional fixed-rate debt securities, or the borrowing rate the Bank would pay for its conventional fixed-rate debt securities were to be used, the Bank would expect the economic terms of the notes to be more favorable to you. Consequently, the use of an internal funding rate for the notes increases the estimated value of the notes at any time and has an adverse effect on the economic terms of the notes.

The Bank's initial estimated value of the notes does not represent future values of the notes and may differ from others' (including SCUSA's) estimates

The Bank's initial estimated value of the notes is determined by reference to its internal pricing models when the terms of the notes were set. These pricing models consider certain factors, such as the Bank's internal funding rate on the trade date, the expected term of the notes, market conditions and other relevant factors existing at that time, and the Bank's assumptions about market parameters, which can include volatility, dividend rates, interest rates and other factors. Different pricing models and assumptions (including the pricing models and assumptions used by SCUSA) could provide valuations for the notes that are different, and perhaps materially lower, from the Bank's initial estimated value. Therefore, the price at which SCUSA would buy or sell your notes (if SCUSA makes a market, which it is not obligated to do) may be materially lower than the Bank's initial estimated value. In addition, market conditions and other relevant factors in the future may change, and any assumptions may prove to be incorrect.

The price at which SCUSA would buy or sell your notes (if SCUSA makes a market, which it is not obligated to do) is based on SCUSA's estimated value of your notes

SCUSA's estimated value of the notes is determined by reference to its pricing models and takes into account the Bank's internal funding rate. The price at which SCUSA would initially buy or sell your notes in the secondary market (if SCUSA makes a market, which it is not obligated to do) exceeds SCUSA's estimated value of your notes at the time of pricing. As agreed by SCUSA and the distribution participants, this excess (i.e., the additional amount described under "Additional Information Regarding Estimated Value of the Notes" above) will decline to zero on a straight line basis over the period from the trade date through the applicable date set forth under "Additional Information Regarding Estimated Value of the Notes" above. Thereafter, if SCUSA buys or sells your notes it will do so at prices that reflect the estimated value determined by reference to SCUSA's pricing models at that time. The price at which SCUSA will buy or sell your notes at any time also will reflect its then current bid and ask spread for similar sized trades of structured notes. If SCUSA calculated its estimated value of your notes by reference to the Bank's credit spreads or the borrowing rate the Bank would pay for its conventional fixed-rate debt securities (as opposed to the Bank's internal funding rate), the price at which SCUSA would buy or sell your notes (if SCUSA makes a market, which it is not obligated to do) could be significantly lower.

SCUSA's pricing models consider certain variables, including principally the Bank's internal funding rate, interest rates (forecasted, current and historical rates), volatility, price-sensitivity analysis and the time to maturity of the notes. These pricing models are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. As a result, the actual value you would receive if you sold your notes in the secondary market, if any, to others may differ, perhaps materially, from the estimated value of your notes determined by reference to SCUSA's models, taking into account the Bank's internal funding rate, due to, among other things, any differences in pricing models or assumptions used by others. See "The price at which the notes may be sold prior to maturity will depend on a number of factors and may be substantially less than the amount for which they were originally purchased" below.

In addition to the factors discussed above, the value and quoted price of your notes at any time will reflect many factors and cannot be predicted. If SCUSA makes a market in the notes, the price quoted by SCUSA would reflect any changes in market conditions and other relevant factors, including any deterioration in the Bank's creditworthiness or perceived creditworthiness. These changes may adversely affect the value of your notes, including the price you may receive for your notes in any market making transaction. To the extent that SCUSA makes a market in the notes, the quoted price will reflect the estimated value determined by reference to SCUSA's pricing models at that time, plus or minus SCUSA's then current bid and ask spread for similar sized trades of structured notes (and subject to the declining excess amount described above).

Furthermore, if you sell your notes, you will likely be charged a commission for secondary market transactions, or the price will likely reflect a dealer discount. This commission or discount will further reduce the proceeds you would receive for your notes in a secondary market sale.

There is no assurance that SCUSA or any other party will be willing to purchase your notes at any price and, in this regard, SCUSA is not obligated to make a market in the notes. See "The notes lack liquidity" below.

Risk of loss at maturity

You may lose your entire investment in the notes. Any payment on the notes at maturity depends on the percentage change of the reference asset. The Bank will only repay you the full principal amount of your notes if the percentage change is equal to or greater than -15.00%. If the percentage change is less than -15.00%, you will have a loss for each $1,000 principal amount of your notes equal to the product of (i) the buffer rate times (ii) the sum of the percentage change plus the buffer percentage times (iii) $1,000. Accordingly, you may lose your entire investment in the notes if the percentage decline from the initial level to the final level is greater than 15.00%.

The downside market exposure to the reference asset is buffered only at maturity

You should be willing to hold your notes to maturity. If you are able to sell your notes prior to maturity in the secondary market, you may have to sell them at a loss relative to your initial investment even if the level of the reference asset at such time is equal to or greater than the buffer level.

Your potential payment at maturity is limited by the maximum payment amount

The payment at maturity will not exceed the maximum payment amount. Therefore, if the appreciation of the level of the reference asset exceeds the cap on appreciation in the maximum payment amount, the notes will provide less opportunity to participate in the appreciation of the reference asset than an investment in a security linked to the level of the reference asset providing full participation in the appreciation. Accordingly, the return on the notes may be less than the return would be if you made an investment in a security directly linked to the positive performance of the reference asset.

The notes differ from conventional debt instruments

The notes are not conventional notes or debt instruments. The notes do not provide you with interest payments prior to maturity as a conventional fixed-rate or floating-rate debt security with the same maturity would. The return that you will receive on the notes, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you would earn if you bought a conventional senior interest bearing debt security of the Bank.

No interest

The notes do not bear interest and, accordingly, you will not receive any interest payments on the notes.

Your investment is subject to the credit risk of The Bank of Nova Scotia

The notes are senior unsecured debt obligations of the Bank, and are not, either directly or indirectly, an obligation of any third party. As further described in the accompanying prospectus, accompanying prospectus supplement and accompanying product prospectus supplement, the notes will rank on par with all of the other unsecured and unsubordinated debt obligations of the Bank, except such obligations as may be preferred by operation of law. Any payment to be made on the notes, including the payment at maturity, depends on the ability of the Bank to satisfy its obligations as they come due. As a result, the actual and perceived creditworthiness of the Bank may affect the market value of the notes and, in the event the Bank were to default on its obligations, you may not receive the amounts owed to you under the terms of the notes. If you sell the notes prior to maturity, you may receive substantially less than the principal amount of your notes.

There are potential conflicts of interest between you and the calculation agent

Scotia Capital Inc., the calculation agent, is one of our affiliates. In performing its duties, the economic interests of the calculation agent are potentially adverse to your interests as an investor in the notes. The calculation agent is under no obligation to consider your interests as a holder of the notes in taking any actions that might affect the level of the reference asset and the value of the notes.

Investors should investigate the reference asset and the reference asset constituent stocks as if making a hypothetical direct investment in the reference asset constituent stocks

Investors should conduct their own diligence of the reference asset and reference asset constituent stocks as an investor would if it were making a hypothetical direct investment in the reference asset constituent stocks. Neither we nor any of our affiliates have participated in the preparation of any publicly available information or made any “due diligence” investigation or inquiry with respect to the reference asset or the reference asset constituent stocks. Furthermore, we cannot give any assurance that all events occurring prior to the original issue date have been properly disclosed. Subsequent disclosure of any such events or the disclosure or failure to disclose material future events concerning the reference asset or the reference asset constituent stocks could affect any payment at maturity. Investors should not conclude that the sale by the Bank of the notes is any form of investment recommendation by the Bank or any of its affiliates to invest in securities linked to the performance of the reference asset or the reference asset constituent stocks.

The notes are subject to market risk

The return on the notes is directly linked to the performance of the reference asset and indirectly linked to the performance of the reference asset constituent stocks, and the extent to which the percentage change is positive or negative. The level of the reference asset can rise or fall sharply due to factors specific to the reference asset constituent stocks, as well as general market factors, such as general market volatility and levels, interest rates and economic and political conditions.

The participation rate applies only at maturity

You should be willing to hold your notes to maturity. If you are able to sell your notes prior to maturity in the secondary market, the price you receive will likely not reflect the full economic value of the participation rate or the notes themselves, and the return you realize may be less than the percentage change multiplied by the participation rate even if such return is positive and less than the maximum payment amount. You may receive the full benefit of the participation rate only if you hold your notes to maturity.

The payment at maturity is not linked to the level of the reference asset at any time other than the valuation date (except in the case of tax redemptions)

The payment at maturity will be based on the final level. Therefore, for example, if the closing level of the reference asset declined substantially as of the valuation date compared to the trade date, the payment at maturity may be significantly less than it would otherwise have been had the payment at maturity been linked to the closing levels of the reference asset prior to the valuation date. Although the actual level of the reference asset at maturity or at other times during the term of the notes may be higher than the final level, you will not benefit from the closing levels of the reference asset at any time other than the valuation date (except in the case of tax redemptions as described further in the accompanying product prospectus supplement).

If the levels of the reference asset or the reference asset constituent stocks change, the market value of your notes may not change in the same manner

Your notes may trade quite differently from the performance of the reference asset or the reference asset constituent stocks. Changes in the levels of the reference asset or the reference asset constituent stocks may not result in a comparable change in the market value of your notes. We discuss some of the reasons for this disparity under "—The price at which the notes may be sold prior to maturity will depend on a number of factors and may be substantially less than the amount for which they were originally purchased" below.

Holding the notes is not the same as holding the reference asset constituent stocks

Holding the notes is not the same as holding the reference asset constituent stocks. As a holder of the notes, you will not be entitled to the voting rights or rights to receive dividends or other distributions or other rights that holders of the reference asset constituent stocks would enjoy. Further, the return on your notes may not reflect the return you would realize if you actually owned the reference asset constituent stocks. For instance, you will not benefit from any positive percentage change in excess of the cap on appreciation of the reference asset set by the maximum payment amount.

There is no assurance that the investment view implicit in the notes will be successful

It is impossible to predict with certainty whether and the extent to which the level of the reference asset will rise or fall. There can be no assurance that the level of the reference asset will rise above the initial level or that the percentage decline from the initial level to the final level will not be greater than the buffer percentage. The final level may be influenced by complex and interrelated political, economic, financial and other factors that affect the level of the reference asset constituent stocks. You should be willing to accept the risks of the price performance of equity securities in general and the reference asset constituent stocks in particular, foreign exchange markets in general and the risk of losing some or all of your initial investment.

Furthermore, we cannot give you any assurance that the future performance of the reference asset or the reference asset constituent stocks will result in your receiving an amount greater than or equal to the principal amount of your notes. Certain periods of historical performance of the reference asset or the reference asset constituent stocks would have resulted in you receiving less than the principal amount of your notes if you had owned notes with terms similar to these notes in the past. See "Information Regarding The Reference Asset" in this pricing supplement for further information regarding the historical performance of the reference asset.

There is no assurance as to the performance of the reference asset or the reference asset constituent stocks; past performance of the reference asset or the reference asset constituent stocks should not be taken as an indication of the future performance of the reference asset or the reference asset constituent stocks

The notes are linked directly to the level of the reference asset and indirectly to the levels of the reference asset constituent stocks, which are speculative and involve a high degree of risk. None of the Bank, the calculation agent, or SCUSA or any other affiliate of the Bank gives any assurance as to the performance of the reference asset or the reference asset constituent stocks. Investors should not conclude that the sale by the Bank of the notes is an investment recommendation by it or by any of the other entities mentioned above to invest in securities linked to the performance of the reference asset or the reference asset constituent stocks. Investors should consult with their own financial advisors as to whether an investment in the notes is appropriate for them. Past performance of the reference asset and the reference asset constituent stocks should not be taken as a guarantee or assurance of the future performance of the reference asset or the reference asset constituent stocks, and it is impossible to predict whether the level of the reference asset or the reference asset constituent stocks will rise or fall during the term of the notes.

The reference asset reflects price return only and not total return

The return on your notes is based on the performance of the reference asset, which reflects the changes in the market prices of the reference asset constituent stocks. It is not, however, linked to a "total return" index or strategy, which, in addition to reflecting those price returns, would also reflect dividends paid on the reference asset constituent stocks. The return on your notes will not include such a total return feature or dividend component.

We may sell an additional aggregate principal amount of the notes at a different issue price

We may decide to sell an additional aggregate principal amount of the notes subsequent to the date of this pricing supplement. The issue price of the notes in the subsequent sale may differ substantially (higher or lower) from the original issue price you paid as provided on the cover of this pricing supplement.

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Changes affecting the reference asset could have an adverse effect on the value of the notes

The policies of the sponsor concerning additions, deletions and substitutions of the reference asset constituent stocks and the manner in which the sponsor takes account of certain changes affecting those reference asset constituent stocks may adversely affect the level of the reference asset. The policies of the sponsor with respect to the calculation of the reference asset could also adversely affect the level of the reference asset. The sponsor may discontinue or suspend calculation or dissemination of the reference asset. Any such actions could have a material adverse effect on the value of the notes.

The Bank cannot control actions by the sponsor and the sponsor has no obligation to consider your interests

The Bank and its affiliates are not affiliated with the sponsor and have no ability to control or predict its actions, including any errors in or discontinuation of public disclosure regarding methods or policies relating to the calculation of the reference asset. The sponsor is not involved in the notes offering in any way and has no obligation to consider your interest as an owner of the notes in taking any actions that might negatively affect the market value of your notes.

The notes are subject to non-U.S. securities market risk

The reference asset is subject to risks associated with non-U.S. securities markets, specifically the regions of Europe, Asia, Australia and the Far East. An investment in the notes linked directly or indirectly to the value of securities issued by non-U.S. companies involves particular risks. Generally, non-U.S. securities markets may be more volatile than U.S. securities markets, and market developments may affect non-U.S. markets differently from U.S. securities markets. Direct or indirect government intervention to stabilize these non-U.S. markets, as well as cross shareholdings in non-U.S. companies, may affect trading prices and volumes in those markets. There is generally less publicly available information about non-U.S. companies than about those U.S. companies that are subject to the reporting requirements of the SEC, and non-U.S. companies are subject to accounting, auditing and financial reporting standards and requirements that differ from those applicable to U.S. reporting companies. Securities prices in non-U.S. countries are subject to political, economic, financial and social factors that may be unique to the particular country. These factors, which could negatively affect the non-U.S. securities markets, include the possibility of recent or future changes in the non-U.S. government's economic and fiscal policies, the possible imposition of, or changes in, currency exchange laws or other non-U.S. laws or restrictions applicable to non-U.S. companies or investments in non-U.S. equity securities and the possibility of fluctuations in the rate of exchange between currencies. The United Kingdom has voted to leave the European Union (popularly known as "Brexit"). The effect of Brexit is uncertain, and Brexit has and may continue to contribute to volatility in the prices of securities of companies located in Europe and currency exchange rates, including the valuation of the euro and British pound in particular. Moreover, certain aspects of a particular non-U.S. economy may differ favorably or unfavorably from the U.S. economy in important respects, such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

The notes are subject to currency exchange risk

Because the prices of the reference asset constituent stocks of the reference asset are converted into U.S. dollars by the sponsor for the purposes of calculating the level of the reference asset, you will be exposed to currency exchange rate risk with respect to each of the currencies in which the reference asset constituent stocks trade. Your net exposure will depend on the extent to which those currencies strengthen or weaken against the U.S. dollar and the relative weight of the reference asset constituent stocks denominated in each of those currencies. If, taking into account the relevant weighting, the U.S. dollar strengthens against those currencies, the level of the reference asset will be adversely affected and consequently the payment at maturity of the notes, if any, may be reduced.

If you purchase your notes at a premium to the principal amount, the return on your investment will be lower than the return on notes purchased at the principal amount and the impact of certain key terms of the notes will be negatively affected

The payment at maturity will not be adjusted based on the original issue price you pay for the notes. If you purchase notes at a price that differs from the principal amount of the notes, then the return on your investment in such notes held to the maturity date will differ from, and may be substantially less than, the return on notes purchased at the principal amount. If you purchase your notes at a premium to the principal amount and hold them to the maturity date, the return on your investment in the notes will be lower than it would have been had you purchased the notes at the principal amount or at a discount to the principal amount. In addition, the impact of the maximum payment amount and the buffer level on the return on your investment will depend upon the price you pay for your notes relative to the principal amount. For example, if you purchase your notes at a premium to the principal amount, the maximum payment amount will only permit a lower positive return on your investment in the notes than would have been the case for notes purchased at the principal amount or a discount to the principal amount. Similarly, the buffer level, while still providing some protection for the return on the notes, will allow a greater percentage decrease in your investment in the notes than would have been the case for notes purchased at the principal amount or a discount to the principal amount.

The price at which the notes may be sold prior to maturity will depend on a number of factors and may be substantially less than the amount for which they were originally purchased

The price at which the notes may be sold prior to maturity will depend on a number of factors. Some of these factors include, but are not limited to: (i) actual or anticipated changes in the level of the reference asset over the full term of the notes, (ii) volatility of the level of the reference asset and the market's perception of future volatility of the level of the reference asset, (iii) changes in interest rates generally, (iv) any actual or anticipated changes in our credit ratings or credit spreads and (v) time remaining to maturity. In particular, because the provisions of the notes relating to the payment at maturity and the maximum payment amount behave like options, the value of the notes will vary in ways which are non-linear and may not be intuitive.

Depending on the actual or anticipated level of the reference asset and other relevant factors, the market value of the notes may decrease and you may receive substantially less than 100% of the issue price if you sell your notes prior to maturity.

See "Additional Risk Factors Specific to the Notes—The Market Value of Your Notes May Be Influenced by Many Unpredictable Factors" beginning on page PS-7 of the accompanying product prospectus supplement.

The notes lack liquidity

The notes will not be listed on any securities exchange or automated quotation system. Therefore, there may be little or no secondary market for the notes. SCUSA and any other affiliates of the Bank may, but are not obligated to, make a market in the notes. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the notes easily. Because we do not expect that other broker-dealers will participate significantly in the secondary market for the notes, the price at which you may be able to trade your notes is likely to depend on the price, if any, at which SCUSA is willing to purchase the notes from you. If at any time SCUSA does not make a market in the notes, it is likely that there would be no secondary market for the notes. Accordingly, you should be willing to hold your notes to maturity.

Hedging activities by the Bank and SCUSA may negatively impact investors in the notes and cause our respective interests and those of our clients and counterparties to be contrary to those of investors in the notes

The Bank, SCUSA or one or more of our other affiliates has hedged or expects to hedge the obligations under the notes by purchasing futures and/or other instruments linked to the reference asset. The Bank, SCUSA or one or more of our other affiliates also expects to adjust the hedge by, among other things, purchasing or selling any of the foregoing, and perhaps other instruments linked to the reference asset and/or one or more of the reference asset constituent stocks, at any time and from time to time, and to unwind the hedge by selling any of the foregoing on or before the valuation date.

The Bank, SCUSA or one or more of our other affiliates may also enter into, adjust and unwind hedging transactions relating to other basket- or index-linked notes whose returns are linked to changes in the level or price of the reference asset or the reference asset constituent stocks. Any of these hedging activities may adversely affect the level of the reference asset—directly or indirectly by affecting the price of the reference asset constituent stocks—and therefore the market value of the notes and the amount you will receive, if any, on the notes. Furthermore, if the dealer from which you purchase notes is to conduct hedging activities for us in connection with the notes, that dealer may profit in connection with such hedging activities and such profit, if any, will be in addition to the compensation that the dealer receives for the sale of the notes to you. You should be aware that the potential to earn fees in connection with hedging activities may create a further incentive for the dealer to sell the notes to you in addition to the compensation they would receive for the sale of the notes. In addition, you should expect that these transactions will cause the Bank, SCUSA or any of our other affiliates, or our respective clients or counterparties, to have economic interests and incentives that do not align with, and that may be directly contrary to, those of an investor in the notes. None of the Bank, SCUSA or any of our other affiliates will have any obligation to take, refrain from taking or cease taking any action with respect to these transactions based on the potential effect on an investor in the notes, and the Bank, SCUSA or any of our other affiliates may receive substantial returns with respect to these hedging activities while the value of the notes may decline.

The Bank, SCUSA and our other affiliates regularly provide services to, or otherwise have business relationships with, a broad client base, which has included and may include us and the issuers of the reference asset constituent stocks and the market activities by the Bank, SCUSA or our other affiliates for our own account or for our clients could negatively impact investors in the notes

We, SCUSA and our other affiliates regularly provide a wide range of financial services, including financial advisory, investment advisory and transactional services to a substantial and diversified client base. As such, we each may act as an investor, investment banker, research provider, investment manager, investment advisor, market maker, trader, prime broker or lender. In those and other capacities, we, SCUSA and/or our other affiliates purchase, sell or hold a broad array of investments, actively trade securities (including the notes or other securities that we have issued), the reference asset constituent stocks, currencies, derivatives, loans, credit default swaps, indices, baskets and other financial instruments and products for our own accounts or for the accounts of our customers, and we will have other direct or indirect interests, in those securities and in other markets that may not be consistent with your interests and may adversely affect the level of the reference asset and/or the value of the notes. You should assume that we or they will, at present or in the future, provide such services or otherwise engage in transactions with, among others, us and the issuers of the reference asset constituent stocks, or transact in securities or instruments or with parties that are directly or indirectly related to these entities. These services could include making loans to or equity investments in those companies, providing financial advisory or other investment banking services, or issuing research reports. Any of these financial market activities may, individually or in the aggregate, have an adverse effect on the level of the reference asset and the market for your notes, and you should expect that our interests and those of SCUSA and/or our other affiliates, clients or counterparties, will at times be adverse to those of investors in the notes.

You should expect that we, SCUSA and our other affiliates, in providing these services, engaging in such transactions, or acting for our own accounts, may take actions that have direct or indirect effects on the notes or other securities that we may issue, the reference asset constituent stocks or other securities or instruments similar to or linked to the foregoing, and that such actions could be adverse to the interests of investors in the notes. In addition, in connection with these activities, certain personnel within the Bank, SCUSA or our other affiliates may have access to confidential material non-public information about these parties that would not be disclosed to investors in the notes.

We, SCUSA and our other affiliates regularly offer a wide array of securities, financial instruments and other products into the marketplace, including existing or new products that are similar to the notes or other securities that we may issue, the reference asset constituent stocks or other securities or instruments similar to or linked to the foregoing. Investors in the notes should expect that the Bank, SCUSA and our other affiliates offer securities, financial instruments, and other products that may compete with the notes for liquidity or otherwise.

Other investors in the notes may not have the same interests as you

The interests of other investors may, in some circumstances, be adverse to your interests. Other investors may make requests or recommendations to us or SCUSA regarding the establishment of transactions on terms that are adverse to your interests, and investors in the notes are not required to take into account the interests of any other investor in exercising remedies, voting or other rights in their capacity as noteholders. Further, other investors may enter into market transactions with respect to the notes, assets that are the same or similar to the notes, assets referenced by the notes (such as stocks or stock indices) or other similar assets or securities which may adversely impact the market for or value of your notes. For example, an investor could take a short position (directly or indirectly through derivative transactions) in respect of securities similar to your notes or in respect of the reference asset.

The calculation agent can postpone the valuation date for the notes if a market disruption event with respect to the reference asset occurs

If the calculation agent determines, in its sole discretion, that, on a day that would otherwise be the valuation date, a market disruption event with respect to the reference asset has occurred or is continuing for the reference asset, the valuation date will be postponed until the first following trading day on which no market disruption event occurs or is continuing, although the valuation date will not be postponed by more than seven scheduled trading days. Moreover, if the valuation date is postponed to the last possible day, but a market disruption event occurs or is continuing on that day, that day will nevertheless be the valuation date, and the calculation agent will determine the applicable final level that must be used to determine the payment at maturity. See "General Terms of the Notes—Unavailability of the Level of the Reference Asset on a Valuation Date" beginning on page PS-19 and "General Terms of the Notes—Market

Disruption Events" beginning on page PS-20 in the accompanying product prospectus supplement.

There is no affiliation between the issuers of any reference asset constituent stock or the sponsor and us or SCUSA

The Bank, SCUSA and our other affiliates may currently, or from time to time in the future, engage in business with the issuers of the reference asset constituent stocks. Neither we nor any of our affiliates have participated in the preparation of any publicly available information or made any "due diligence" investigation or inquiry with respect to the reference asset or the reference asset constituent stocks. You should make your own investigation into the reference asset and the issuers of the reference asset constituent stocks. See the section below entitled "Information Regarding the Reference Asset" in this pricing supplement for additional information about the reference asset.

Uncertain tax treatment

Significant aspects of the tax treatment of the notes are uncertain. You should consult your tax advisor about your tax situation. See "Certain Canadian Income Tax Consequences" and "Material U.S. Federal Income Tax Considerations" in this pricing supplement.

INFORMATION REGARDING THE REFERENCE ASSET

The MSCI EAFE® Index

The reference asset is the MSCI EAFE® Index (Bloomberg ticker "MXEA"). All information contained in this pricing supplement regarding the reference asset, including, without limitation, its makeup, method of calculation, and changes in its components, have been derived from publicly available sources. Additional information on the reference asset is available on the MSCI website: www.msci.com. We are not incorporating by reference the website or any material included on that website in this pricing supplement. In this pricing supplement, unless the context requires otherwise, references to the reference asset will include any successor index to the reference asset and references to MSCI will include any successor thereto. The information reflects the policies of, and is subject to change by MSCI. MSCI has no obligation to continue to publish, and may discontinue publication of, the reference asset.

Description of the Reference Asset

The MSCI EAFE® Index is a stock index calculated, published and disseminated daily by MSCI Inc., which we refer to as "MSCI", through numerous data vendors, on the MSCI website and in real time on Bloomberg and Reuters Limited.

The MSCI EAFE® Index is a free float adjusted market capitalization index and is part of the MSCI Global Investable Market Indices, the methodology of which is described below. The index is considered a “standard” index, which means it consists of all eligible large capitalization and mid-capitalization stocks, as determined by MSCI, in the relevant market. Additional information about the MSCI Global Investable Market Indices is available on the following website: msci.com. We are not incorporating by reference these websites, the sources listed above or any material they include in this pricing supplement.

The MSCI EAFE® Index is intended to provide performance benchmarks for the developed equity markets in Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The constituent stocks of the MSCI EAFE® Index are derived from the constituent stocks in the 21 MSCI standard single country indices for the developed market countries listed above. The MSCI EAFE® Index is calculated in U.S. dollars. The MSCI EAFE® Index has a base date of December 31, 1969.

Index Stock Weighting by Country
as of January 31, 2019

Country:	Percentage (%)*
France	11.02%
Germany	8.80%
Japan	24.66%
Switzerland	8.61%
United Kingdom	16.98%
Other	29.93%

*Information provided by MSCI. Percentages may not sum to 100% due to rounding.

MSCI divides the companies included in the MSCI EAFE® Index into eleven Global Industry Classification Sectors: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate and Utilities.

Index Stock Weighting by Sector
as of January 31, 2019

Sector**	Percentage (%)*
Communication Services	5.53%
Consumer Discretionary	11.30%
Consumer Staples	11.37%
Energy	5.90%
Financials	19.33%
Health Care	11.01%
Industrials	14.37%
Information Technology	6.09%
Materials	7.48%
Real Estate	3.84%
Utilities	3.77%

*Information provided by MSCI. Percentages may not sum to 100% due to rounding.

**Sector designations are determined by the sponsor using criteria it has selected or developed. Index sponsors may use very different standards for determining sector designations. In addition, many companies operate in a number of sectors, but are listed in only one sector and the basis on which that sector is selected may also differ. As a result, sector comparisons between indices with different index sponsors may reflect differences in methodology as well as actual differences in the sector composition of the indices. As of the close of business on September 21, 2018, MSCI and S&P Dow Jones Indices LLC updated the Global Industry Classification Sector structure. Among other things, the update broadened the Telecommunications Services sector and renamed it the Communication Services sector. The renamed sector includes the previously existing Telecommunication Services Industry group, as well as the Media Industry group, which was moved from the Consumer Discretionary sector and renamed the Media & Entertainment Industry group. The Media & Entertainment Industry group contains three industries: Media, Entertainment and Interactive Media & Services. The Media industry continues to consist of the Advertising, Broadcasting, Cable & Satellite and Publishing sub-industries. The Entertainment industry contains the Movies & Entertainment sub-industry (which includes online entertainment streaming companies in addition to companies previously classified in such industry prior to September 21, 2018) and the Interactive Home Entertainment sub-industry (which includes companies previously classified in the Home Entertainment Software sub-industry prior to September 21, 2018 (when the Home Entertainment Software sub-industry was a sub-industry in the Information Technology sector)), as well as producers of interactive gaming products, including mobile gaming applications). The Interactive Media & Services industry and sub-industry includes companies engaged in content and information creation or distribution through proprietary platforms, where revenues are derived primarily through pay-per-click advertisements, and includes search engines, social media and networking platforms, online classifieds and online review companies. The Global Industry Classification Sector structure changes were effective for the MSCI EAFE® Index as of the open of business on December 3, 2018 to coincide with the November 2018 semi-annual index review.

Construction of the MSCI EAFE® Index

MSCI undertakes an index construction process, which involves: (i) defining the equity universe; (ii) determining the market investable equity universe for each market; (iii) determining market capitalization size segments for each market; (iv) applying index continuity rules for the standard index; (v) creating style segments within each size segment within each market; and (vi) classifying securities under the Global Industry Classification Standard. The index construction methodology differs in some cases depending on whether the relevant market is considered a developed market or an emerging market. The MSCI EAFE® Index is a developed market index. The MSCI EAFE® Index is a standard index, meaning that only securities that would qualify for inclusion in a large cap index or a mid cap index will be included as described below.

Defining the Equity Universe

(i) Identifying Eligible Equity Securities: The equity universe initially looks at securities listed in any of the countries in the MSCI Global Index series, which will be classified as either "developed markets" or "emerging markets". All listed equity securities, including real estate investment trusts and certain income trusts in Canada are eligible for inclusion in the equity universe. Limited partnerships, limited liability companies and business trusts, which are listed in the U.S. and are not structured to be taxed as limited partnerships, are likewise eligible for inclusion in the equity universe. Conversely, mutual funds, exchange traded funds, equity derivatives and most investment trusts are not eligible for inclusion in the equity universe. Preferred shares that exhibit characteristics of equity securities are eligible. Securities for which the Hong Kong Securities and Futures Commission has issued high shareholding concentration notices are not eligible.

(ii) Country Classification of Eligible Securities: Each company and its securities (i.e., share classes) are classified in one and only one country, which allows for a distinctive sorting of each company by its respective country.

Determining the Market Investable Equity Universes

A market investable equity universe for a market is derived by (i) identifying eligible listings for each security in the equity universe; and (ii) applying investability screens to individual companies and securities in the equity universe that are classified in that market. A market is generally equivalent to a single country. The global investable equity universe is the aggregation of all market investable equity universes.

(i) Identifying Eligible Listings: A security may have a listing in the country where it is classified (a "local listing") and/or in a different country (a "foreign listing"). A security may be represented by either a local listing or a foreign listing (including a depositary receipt) in the global investable equity universe. A security may be represented by a foreign listing only if the security is classified in a country that meets the foreign listing materiality requirement (as described below), and the security's foreign listing is traded on an eligible stock exchange of a developed market country if the security is classified in a developed market country or, if the security is classified in an emerging market country, an eligible stock exchange of a developed market country or an emerging market country.

In order for a country to meet the foreign listing materiality requirement, MSCI determines all securities represented by a foreign listing that would be included in the country's MSCI Country Investable Market Index if foreign listings were eligible from that country. The aggregate free-float adjusted market capitalization for all such securities should represent at least (i) 5% of the free float-adjusted market capitalization of the relevant MSCI Country Investable Market Index and (ii) 0.05% of the free-float adjusted market capitalization of the MSCI ACWI Investable Market Index. If a country does not meet the foreign listing materiality requirement, then securities in that country may not be represented by a foreign listing in the global investable equity universe.

(ii) Applying Investability Screens: The investability screens used to determine the investable equity universe in each market are:

(a) Equity Universe Minimum Size Requirement: This investability screen is applied at the company level. In order to be included in a market investable equity universe, a company must have the required minimum full market capitalization. The equity universe minimum size requirement applies to companies in all markets and is derived as follows:

• First, the companies in the developed market equity universe are sorted in descending order of full market capitalization and the cumulative coverage of the free float-adjusted market capitalization of the developed market equity universe is calculated for each company. Each company's free float-adjusted market capitalization is represented by the aggregation of the free float-adjusted market capitalization of the securities of that company in the equity universe.

· Second, when the cumulative free float-adjusted market capitalization coverage of 99% of the sorted equity universe is achieved, by adding each company's free float-adjusted market capitalization in descending order, the full market capitalization of the company that reaches the 99% threshold defines the equity universe minimum size requirement.

· The rank of this company by descending order of full market capitalization within the developed market equity universe is noted, and will be used in determining the equity universe minimum size requirement at the next rebalance.

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As of November 2017, the equity universe minimum size requirement was set at US$261,000,000. Companies with a full market capitalization below this level are not included in any market investable equity universe. The equity universe minimum size requirement is reviewed and, if necessary, revised at each semi-annual index review, described below.

(b) Equity Universe Minimum Free Float-Adjusted Market Capitalization Requirement: This investability screen is applied at the individual security level. To be eligible for inclusion in a market investable equity universe, a security must have a free float-adjusted market capitalization equal to or higher than 50% of the equity universe minimum size requirement.

(c) Minimum Liquidity Requirement: This investability screen is applied at the individual security level. To be eligible for inclusion in a market investable equity universe, a security must have at least one eligible listing that has adequate liquidity as measured by its 12-month and 3-month annualized traded value ratio. This measure attempts to mitigate the impact of extreme daily trading volumes and takes into account the free float-adjusted market capitalization of securities. A minimum liquidity level of 20% of the 3-month annualized trade value ratio and 90% of 3-month frequency of trading over the last 4 consecutive quarters, as well as 20% of the 12-month annualized trade value ratio, are required for inclusion of a security in a market investable equity universe of a developed market.

Only one listing per security may be included in the market investable equity universe. In instances where a security has two or more eligible listings that meet the above liquidity requirements, then the following priority rules are used to determine which listing will be used for potential inclusion of the security in the market investable equity universe:

(1) Local listing (if the security has two or more local listings, then the listing with the highest 3-month ATVR will be used).

(2) Foreign listing in the same geographical region (MSCI classifies markets into three main geographical regions: EMEA, Asia Pacific and Americas. If the security has several listings in the same geographical region, then the listing with the highest 3-month ATVR will be used).

(3) Foreign listing in a different geographical region (if the security has several listings in a different geographical region, then the listing with the highest 3-month ATVR will be used).

Due to liquidity concerns relating to securities trading at very high stock prices, a security that is currently not a constituent of a MSCI Global Investable Markets Index that is trading at a stock price above US$10,000 will fail the liquidity screening and will not be included in any market investable equity universe.

(d) Global Minimum Foreign Inclusion Factor Requirement: This investability screen is applied at the individual security level. To determine the free float of a security, MSCI considers the proportion of shares of such security available for purchase in the public equity markets by international investors. In practice, limitations on the investment opportunities for international investors include: strategic stakes in a company held by private or public shareholders whose investment objective indicates that the shares held are not likely to be available in the market; limits on the proportion of a security's share capital authorized for purchase by non-domestic investors; or other foreign investment restrictions which materially limit the ability of foreign investors to freely invest in a particular equity market, sector or security.

MSCI will then derive a "foreign inclusion factor" for the company that reflects the proportion of shares outstanding that is available for purchase in the public equity markets by international investors. MSCI will then "float-adjust" the weight of each constituent company in an index by the company's foreign inclusion factor. Typically, securities with a free float adjustment ratio of less than 0.15 will not be eligible for inclusion in the MSCI EAFE® Index.

Once the free float factor has been determined for a security, the security's total market capitalization is then adjusted by such free float factor, resulting in the free float-adjusted market capitalization figure for the security.

(e) Minimum Length of Trading Requirement: This investability screen is applied at the individual security level. For an initial public offering to be eligible for inclusion in a market investable equity universe, the new issue must have started trading at least three months before the implementation of a semi-annual index review. This requirement is applicable to small new issues in all markets. Large initial public offerings are not subject to the minimum length of trading requirement and may be included in a market investable equity universe and a standard index, such as the MSCI EAFE® Index, outside of a quarterly or semi-annual index review.
(f) Minimum Foreign Room Requirement: This investability screen is applied at the individual security level. For a security that is subject to a foreign ownership limit to be eligible for inclusion in a market investable equity universe, the proportion of shares still available to foreign investors relative to the maximum allowed (referred to as "foreign room") must be at least 15%.

Defining Market Capitalization Size Segments for Each Market

Once a market investable equity universe is defined, it is segmented into the following size-based indices:

· Investable Market Index (Large Cap + Mid Cap + Small Cap)

· Standard Index (Large Cap + Mid Cap)

· Large Cap Index

· Mid Cap Index

· Small Cap Index

Creating the size segment indices in each market involves the following steps: (i) defining the market coverage target range for each size segment; (ii) determining the global minimum size range for each size segment; (iii) determining the market size segment cutoffs and associated segment number of companies; (iv) assigning companies to the size segments; and (v) applying final size-segment investability requirements. For developed market indices, the market coverage for a standard index is 85%. As of November 2017, the global minimum size range for a developed market standard index is a full market capitalization of USD 3.05 billion to USD 7.02 billion.

Index Continuity Rules for Standard Indices

In order to achieve index continuity, as well as provide some basic level of diversification within a market index, notwithstanding the effect of other index construction rules, a minimum number of five constituents will be maintained for a developed market standard index and a minimum number of three constituents will be maintained for an emerging market standard index, and involves the following steps:

· If after the application of the index construction methodology, a developed market standard index contains fewer than five securities or an emerging market standard index contains fewer than three securities, then the largest securities by free float-adjusted market capitalization are added to the index in order to reach the minimum number of required constituents.

· At subsequent index reviews, if the minimum number of securities described above is not met, then after the market investable equity universe is identified, the securities are ranked by free float-adjusted market capitalization, however, in order to increase stability the free float-adjusted market capitalization of the existing index constituents (prior to review) is multiplied by 1.50, and securities are added until the desired minimum number of securities is reached.

All securities in the investable equity universe are classified into value or growth segments. The classification of a security into the value or growth segment is used by MSCI to construct additional indices.

Classifying Securities under the Global Industry Classification Standard

All securities in the global investable equity universe are assigned to the industry that best describes their business activities. The GICS classification of each security is used by MSCI to construct additional indices.

Calculation Methodology for the MSCI EAFE® Index

Price Return Methodology

The performance of the MSCI EAFE® Index is a free float weighted average of the U.S. dollar values of its component securities.

Prices used to calculate the component securities are the official exchange closing prices or prices accepted as such in the relevant market. In the case of a market closure, or if a security does not trade on a specific day or during a specific period, MSCI carries forward the previous day's price (or latest available closing price). In the event of a market outage resulting in any component security price to be unavailable, MSCI will generally use the last reported price for such component security for the purpose of performance calculation unless MSCI determines that another price is more appropriate based on the circumstances. Closing prices are converted into U.S. dollars, as applicable, using the closing spot exchange rates calculated by WM/Reuters at 4:00 P.M. London Time.

Maintenance of the MSCI EAFE® Index

In order to maintain the representativeness of the MSCI EAFE® Index, structural changes to the index as a whole may be made by adding or deleting component securities. Currently, such changes in the MSCI EAFE® Index may generally only be made on four dates throughout the year: after the close of the last business day of each February, May, August and November.

Each country index is maintained with the objective of reflecting, on a timely basis, the evolution of the underlying equity markets. In maintaining each component country index, emphasis is also placed on its continuity, continuous investability of constituents and replicability of the index and on index stability and minimizing turnover.

MSCI classifies index maintenance in three broad categories. The first consists of ongoing event related changes, such as mergers and acquisitions, which are generally implemented in the country indices in which they occur. The second category consists of quarterly index reviews, aimed at promptly reflecting other significant market events. The third category consists of semi-annual index reviews that systematically re-assess the various dimensions of the equity universe.

Ongoing event-related changes to the country indices are the result of mergers, acquisitions, spin-offs, bankruptcies, reorganizations and other similar corporate events. They can also result from capital reorganizations in the form of rights issues, stock bonus issues, public placements and other similar corporate actions that take place on a continuing basis. MSCI will remove from the index as soon as practicable securities of companies that file for bankruptcy or other protection from their creditors, that are suspended and for which a return to normal business activity and trading is unlikely in the near future, or that fail stock exchange listing requirements with a delisting announcement. Securities may also be considered for early deletion in other significant cases, such as decreases in free float and foreign ownership limits, or when a constituent company acquires or merges with a non-constituent company or spins-off another company. In practice, when a constituent company is involved in a corporate event which results in a significant decrease in the company’s free float-adjusted market capitalization or the company decreases its foreign inclusion factor to below 0.15, the securities of that constituent company are considered for early deletion from the indices simultaneously with the event unless, in either case, it is a standard index constituent with a minimum free float-adjusted market capitalization that is not at least two-thirds of one-half of the standard index interim size segment cut-off. Share conversions may also give rise to an early deletion. All changes resulting from corporate events are announced prior to their implementation, provided all necessary information on the event is available.

MSCI’s quarterly index review process is designed to ensure that the country indices continue to be an accurate reflection of evolving equity markets. This goal is achieved by timely reflecting significant market driven changes that were not captured in each index at the time of their actual occurrence and that should not wait until the semi-annual index review due to their importance. These quarterly index reviews may result in additions and deletions of component securities from a country index (or a security being removed from one country listing and represented by a different country listing) and changes in “foreign inclusion factors” and in number of shares. Additions and deletions to component securities may result from: the addition of large companies that did not meet the minimum size criterion for inclusion at the time of their initial public offering or secondary offering; the replacement of companies which are no longer suitable industry representatives; the deletion of securities whose overall free float has fallen to less than 15% and that do not meet specified criteria; the deletion of securities that have become very small or illiquid; and the addition or deletion of securities as a result of other market events. Significant changes in free float estimates and corresponding changes in the foreign inclusion factor for component securities may result from: block sales, block buys, secondary offerings and transactions made by way of immediate book-building that did not meet the requirements for implementation at the time of such event; corporate events that should have been implemented at the time of such event but could not be reflected immediately due to lack of publicly available details at the time of the event; exercise of IPO over-allotment options which result in an increase in free float; increases in foreign ownership limits; decreases in foreign ownership limits which did not require foreign investors to immediately sell shares in the market; re-estimates of free float figures resulting from the reclassification of shareholders from strategic to non-strategic, and vice versa; the end of lock-up periods or expiration of loyalty incentives for non-strategic shareholders; conversion of a non-index constituent share class or an unlisted line of shares which has an impact on index constituents; and acquisition by shares of non-listed companies or assets. However, no changes in foreign inclusion factors are implemented for any of the above events if the change in free float estimate is less than 1%, except in cases of correction. Small changes in the number of shares resulting from, for example, exercise of options or warrants, conversion of convertible bonds or other instruments, conversion of a non-index constituent share class or an unlisted line of shares which has an impact on index constituents, periodic conversion of a share class into another share class, exercise of over-allotment options, exercise of share buybacks, or the cancellation of shares, are generally updated at the quarterly index review rather than at the time of the event. The results of the quarterly index reviews are announced at least two weeks in advance of their effective implementation dates as of the close of the last business day of February and August. MSCI has noted that consistency is a factor in maintaining each component country index.

MSCI's semi-annual index review is designed to systematically reassess the component securities of the index. During each semi-annual index review, the universe of component securities is updated and the global minimum size range for the index is recalculated, which is based on the full market capitalization and the cumulative free float-adjusted market capitalization coverage of each security that is eligible to be included in the index. The following index maintenance activities, among others, are undertaken during each semi-annual index review: the list of countries in which securities may be represented by foreign listings is reviewed; the component securities are updated by identifying new equity securities that were not part of the index at the time of the previous quarterly index review; the minimum size requirement for the index is updated and new companies are evaluated relative to the new minimum size requirement; existing component securities that do not meet the minimum liquidity requirements of the index may be removed (or, with respect to any such security that has other listings, a determination is made as to whether any such listing can be used to represent the security in the market investable universe); and changes in "foreign inclusion factors" are implemented (provided the change in free float is greater than 1%, except in cases of correction). During a semi-annual index review, component securities may be added or deleted from a country index for a range of reasons, including the reasons discussed with respect to component securities changes during quarterly index reviews as discussed above. Foreign listings may become eligible to represent securities only from the countries that met the foreign listing materiality requirement during the previous semi-annual index review (this requirement is applied only to countries that do not yet include foreign listed securities). Once a country meets the foreign listing materiality requirement at a given semi-annual index review, foreign listings will remain eligible for such country even if the foreign listing materiality requirements are not met in the future.

The results of the semi-annual index reviews are announced at least two weeks in advance of their effective implementation date as of the close of the last business day of May and November.

Index maintenance also includes monitoring and completing adjustments for share changes, stock splits, stock dividends, and stock price adjustments due to company restructurings or spin-offs.

These guidelines and the policies implementing the guidelines are the responsibility of, and, ultimately, subject to adjustment by, MSCI.

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Historical Information

We obtained the information regarding the historical performance of the reference asset in the table and graph below from Bloomberg. Bloomberg reports the closing level of the reference asset to fewer decimal places than the sponsor. We have not undertaken an independent review or due diligence of the information. The historical performance of the reference asset should not be taken as an indication of its future performance, and no assurance can be given as to the final level of the reference asset. We cannot give you assurance that the performance of the reference asset will result in any positive return on your initial investment.

The following table sets forth the quarterly high and low closing levels for the reference asset, based on daily closing levels. The closing level of the reference asset on February 14, 2019 was 1,828.80. Past performance of the reference asset is not indicative of the future performance of the reference asset.

Quarter Begin	Quarter End	Quarterly High	Quarterly Low	Quarterly Close
1/1/2014	3/31/2014	1,940.23	1,796.86	1,915.69
4/1/2014	6/30/2014	1,992.69	1,882.24	1,972.12
7/1/2014	9/30/2014	1,995.49	1,846.08	1,846.08
10/1/2014	12/31/2014	1,848.79	1,714.64	1,774.89
1/1/2015	3/31/2015	1,900.90	1,697.01	1,849.34
4/1/2015	6/30/2015	1,949.49	1,842.46	1,842.46
7/1/2015	9/30/2015	1,894.42	1,609.50	1,644.40
10/1/2015	12/31/2015	1,779.25	1,654.98	1,716.28
1/1/2016	3/31/2016	1,716.28	1,492.43	1,652.04
4/1/2016	6/30/2016	1,716.51	1,520.94	1,608.45
7/1/2016	9/30/2016	1,734.72	1,573.30	1,701.69
10/1/2016	12/31/2016	1,704.84	1,614.17	1,684.00
1/1/2017	3/31/2017	1,812.06	1,676.93	1,792.98
4/1/2017	6/30/2017	1,916.37	1,774.47	1,883.19
7/1/2017	9/30/2017	1,981.49	1,874.10	1,973.81
10/1/2017	12/31/2017	2,050.79	1,971.41	2,050.79
1/1/2018	3/31/2018	2,186.65	1,989.61	2,005.67
4/1/2018	6/30/2018	2,066.80	1,938.95	1,958.64
7/1/2018	9/30/2018	2,011.48	1,905.44	1,973.60
10/1/2018	12/31/2018	1,970.26	1,683.36	1,719.88
1/1/2019	2/14/2019*	1,846.97	1,708.59	1,828.80

* As of the date of this pricing supplement, available information for the first calendar quarter of 2019 includes data for the period from January 1, 2019 through February 14, 2019. Accordingly, the ‘‘Quarterly High,’’ ‘‘Quarterly Low’’ and ‘‘Quarterly Close’’ data indicated are for this shortened period only and do not reflect complete data for the first calendar quarter of 2019.

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The graph below illustrates the performance of the reference asset from January 1, 2009 through February 14, 2019. Past performance of the reference asset is not indicative of the future performance of the reference asset.

Historical Performance of The MSCI EAFE® Index

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SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)

SCUSA, our affiliate, has agreed to purchase the notes at the principal amount and, as part of the distribution of the notes, has agreed to sell the notes to certain unaffiliated securities dealers at the original issue price specified on the cover hereof. In addition, SCUSA and our other affiliates or agents may use the accompanying product prospectus supplement to which this pricing supplement relates in market-making transactions after the initial sale of the notes. While SCUSA may make markets in the notes, they are under no obligation to do so and may discontinue any market-making activities at any time without notice. See the sections titled "Supplemental Plan of Distribution (Conflicts of Interest)" in the accompanying prospectus supplement and accompanying product prospectus supplement.

The price at which you purchase the notes includes costs that the Bank, SCUSA or our other affiliates expect to incur and profits that the Bank, SCUSA and our other affiliates expect to realize in connection with hedging activities related to the notes, as set forth above. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the notes. As a result, you may experience an immediate and substantial decline in the market value of your notes on the original issue date.

Conflicts of interest

Each of SCUSA and Scotia Capital Inc. is an affiliate of the Bank and, as such, has a "conflict of interest" in this offering within the meaning of FINRA Rule 5121. In addition, the Bank will receive the gross proceeds from the initial public offering of the notes, thus creating an additional conflict of interest within the meaning of Rule 5121. Consequently, the offering is being conducted in compliance with the provisions of Rule 5121. Neither SCUSA nor Scotia Capital Inc. is permitted to sell notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

SCUSA and our other affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. SCUSA and our other affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Bank, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, SCUSA and our other affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Bank. SCUSA and our other affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Prohibition of Sales to EEA Retail Investors

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (“EEA”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended (“MiFID II”); (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC, as amended. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the “PRIIPs Regulation”), for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

CERTAIN CANADIAN INCOME TAX CONSEQUENCES

See "Supplemental Discussion of Canadian Tax Consequences" on page PS-27 of the accompanying product prospectus supplement.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The U.S. federal income tax consequences of your investment in the notes are uncertain. There are no statutory provisions, regulations, published rulings or judicial decisions addressing the characterization for U.S. federal income tax purposes of securities with terms that are substantially the same as the notes. No ruling from the U.S. Internal Revenue Service (the "IRS") has been sought as to the U.S. federal income tax consequences of your investment in the notes, and the following discussion is not binding on the IRS. Some of these tax consequences are summarized below, but we urge you to read the more detailed discussion under "Material U.S. Federal Income Tax Consequences" in the product prospectus supplement and to discuss the tax consequences of your particular situation with your tax advisor. This discussion is based upon the Internal Revenue Code of 1986, as amended (the "Code"), final, temporary and proposed U.S. Treasury Department (the "Treasury") regulations, rulings and decisions, in each case, as available and in effect as of the date hereof, all of which are subject to change, possibly with retroactive effect. Tax consequences under state, local and non-U.S. laws are not addressed herein.

U.S. Tax Treatment. Pursuant to the terms of the notes, the Bank and you agree, in the absence of a statutory or regulatory change or an administrative determination or judicial ruling to the contrary, to characterize your notes as prepaid derivative contracts with respect to the reference asset. If your notes are so treated, you should generally recognize gain or loss upon the taxable disposition of your notes in an amount equal to the difference between the amount you receive at such time and the amount you paid for your notes. Such gain or loss should generally be long-term capital gain or loss if you have held your notes for more than one year (otherwise such gain or loss should be short-term capital gain or loss if held for one year or less). The deductibility of capital losses is subject to limitations.

Based on certain factual representations received from us, our special U.S. tax counsel, Cadwalader, Wickersham & Taft LLP, is of the opinion that it would be reasonable to treat your notes in the manner described above. However, because there is no authority that specifically addresses the tax treatment of the notes, it is possible that your notes could alternatively be treated for tax purposes as a single contingent payment debt instrument, or pursuant to some other characterization, such that the timing and character of your income from the notes could differ materially and adversely from the treatment described above.

Notice 2008-2. In 2007, the IRS released a notice that may affect the taxation of holders of the notes. According to Notice 2008-2, the IRS and the Treasury are actively considering whether a holder of an instrument such as the notes should be required to accrue ordinary income on a current basis, and they are seeking taxpayer comments on the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the notes will ultimately be required to accrue income currently and this could be applied on a retroactive basis. The IRS and the Treasury are also considering other relevant issues, including whether additional gain or loss from such instruments should be treated as ordinary or capital, whether non-U.S. holders of such instruments should be subject to withholding tax on any deemed income accruals, and whether the special "constructive ownership rules" of Section 1260 of the Code should be applied to such instruments.

Section 1297. We will not attempt to ascertain whether any reference asset constituent stock would be treated as a "passive foreign investment company" (a "PFIC") within the meaning of Section 1297 of the Code. If any such entity were so treated, certain adverse U.S. federal income tax consequences might apply upon the sale, exchange, redemption or maturity of a note. You should refer to information filed with the SEC or the equivalent governmental authority by such entities and consult your tax advisor regarding the possible consequences to you if any such entity is or becomes a PFIC.

Medicare Tax on Net Investment Income. U.S. holders that are individuals, estates or certain trusts are subject to an additional 3.8% tax on all or a portion of their "net investment income," or "undistributed net investment income" in the case of an estate or trust, which may include any income or gain with respect to the notes, to the extent of their net investment income or undistributed net investment income (as the case may be) that, when added to their other modified adjusted gross income, exceeds $200,000 for an unmarried individual, $250,000 for a married taxpayer filing a joint return (or a surviving spouse), $125,000 for a married individual filing a separate return or the dollar amount at which the highest tax bracket begins for an estate or trust. The 3.8% Medicare tax is determined in a different manner than the regular income tax. U.S. holders should consult their tax advisors as to the consequences of the 3.8% Medicare tax with respect to their investment in the notes.

Specified Foreign Financial Assets. U.S. holders may be subject to reporting obligations with respect to their notes if they do not hold their notes in an account maintained by a financial institution and the aggregate value of their notes and certain other "specified foreign financial assets" (applying certain attribution rules) exceeds an applicable threshold. Significant penalties can apply if a U.S. holder is required to disclose its notes and fails to do so.

Non-U.S. Holders. If you are a non-U.S. holder, subject to Section 871(m) of the Code and FATCA, discussed below, you should generally not be subject to U.S. withholding tax with respect to payments on your notes or to generally applicable information reporting and backup withholding requirements with respect to payments on your notes if you comply with certain certification and identification requirements as to your non-U.S. status including providing us (and/or the applicable withholding agent) a properly executed and fully completed applicable IRS Form W-8. Subject to Section 871(m) of the Code, as discussed below, gain from taxable disposition of the notes generally will not be subject to U.S. tax unless (i) such gain is effectively connected with a trade or business conducted by you in the U.S., (ii) you are a non-resident alien individual and are present in the U.S. for 183 days or more during the taxable year of such taxable disposition and certain other conditions are satisfied or (iii) you have certain other present or former connections with the U.S.

Section 871(m). A 30% withholding tax (which may be reduced by an applicable income tax treaty) is imposed under Section 871(m) of the Code on certain "dividend equivalents" paid or deemed paid to a non-U.S. holder with respect to a "specified equity-linked instrument" that references one or more dividend-paying U.S. equity securities or indices containing U.S. equity securities. The withholding tax can apply even if the instrument does not provide for payments that reference dividends. Treasury regulations provide that the withholding tax applies to all dividend equivalents paid or deemed paid on specified equity-linked instruments that have a delta of one ("delta-one specified equity-linked instruments") issued after 2016 and to all dividend equivalents paid or deemed paid on all other specified equity-linked instruments issued after 2018. However, the IRS has issued guidance that states that the Treasury and the IRS intend to amend the effective dates of the Treasury regulations to provide that withholding on dividend equivalents paid or deemed paid will not apply to specified equity-linked instruments that are not delta-one specified equity-linked instruments and are issued before January 1, 2021.

Based on our determination that the notes are not "delta-one" with respect to the reference asset or any U.S. reference asset constituent stocks, our special U.S. tax counsel is of the opinion that the notes should not be delta-one specified equity-linked instruments and thus should not be subject to withholding on dividend equivalents. Our determination is not binding on the IRS, and the IRS may disagree with this determination. Furthermore, the application of Section 871(m) of the Code will depend on our determinations made upon issuance of the notes. If withholding is required, we will not make payments of any additional amounts.

Nevertheless, after issuance, it is possible that your notes could be deemed to be reissued for tax purposes upon the occurrence of certain events affecting the reference asset, any U.S. reference asset constituent stocks or your notes, and following such occurrence your notes could be treated as delta-one specified equity-linked instruments that are subject to withholding on dividend equivalents. It is also possible that withholding tax or other tax under Section 871(m) of the Code could apply to the notes under these rules if you enter, or have entered, into certain other transactions in respect of the reference asset, any U.S. reference asset constituent stocks or the notes. If you enter, or have entered, into other transactions in respect of the reference asset, any U.S. reference asset constituent stocks or the notes, you should consult your tax advisor regarding the application of Section 871(m) of the Code to your notes in the context of your other transactions.

Because of the uncertainty regarding the application of the 30% withholding tax on dividend equivalents to the notes, you are urged to consult your tax advisor regarding the potential application of Section 871(m) of the Code and the 30% withholding tax to an investment in the notes.

U.S. Federal Estate Tax Treatment of Non-U.S. Holders. A note may be subject to U.S. federal estate tax if an individual non-U.S. holder holds the note at the time of his or her death. The gross estate of a non-U.S. holder domiciled outside the U.S. includes only property situated in the U.S. Individual non-U.S. holders should consult their tax advisors regarding the U.S. federal estate tax consequences of holding the notes at death.

FATCA. The Foreign Account Tax Compliance Act ("FATCA") was enacted on March 18, 2010, and imposes a 30% U.S. withholding tax on "withholdable payments" (i.e., certain U.S.-source payments, including interest (and original issue discount), dividends, other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce U.S.-source interest or dividends) and "passthru payments" (i.e., certain payments attributable to withholdable payments) made to certain foreign financial institutions (and certain of their affiliates) unless the payee foreign financial institution agrees (or is required), among other things, to disclose the identity of any U.S. individual with an account at the institution (or the relevant affiliate) and to annually report certain information about such account. FATCA also requires withholding agents making withholdable payments to certain foreign entities that do not disclose the name, address, and taxpayer identification number of any substantial U.S. owners (or do not certify that they do not have any substantial U.S. owners) to withhold tax at a rate of 30%. Under certain circumstances, a holder may be eligible for refunds or credits of such taxes.

Pursuant to final and temporary Treasury regulations and other IRS guidance, the withholding and reporting requirements under FATCA will generally apply to certain "withholdable payments", will not apply to gross proceeds on a sale or disposition, and will apply to certain foreign passthru payments only to the extent that such payments are made after the date that is two years after final regulations defining the term "foreign passthru payment" are published. If withholding is required, we (or the applicable paying agent) will not be required to pay additional amounts with respect to the amounts so withheld. Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the U.S. governing FATCA may be subject to different rules.

Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions (or if they hold their notes through a foreign entity) under the FATCA rules.

Proposed Legislation. In 2007, legislation was introduced in Congress that, if it had been enacted, would have required holders of notes purchased after the bill was enacted to accrue interest income over the term of the notes despite the fact that there will be no interest payments over the term of the notes.

Furthermore, in 2013, the House Ways and Means Committee released in draft form certain proposed legislation relating to financial instruments. If it had been enacted, the effect of this legislation generally would have been to require instruments such as the notes to be marked to market on an annual basis with all gains and losses to be treated as ordinary, subject to certain exceptions.

It is impossible to predict whether any similar or identical bills will be enacted in the future, or whether any such bill would affect the tax treatment of your notes. You are urged to consult your tax advisor regarding the possible changes in law and their possible impact on the tax treatment of your notes.

Both U.S. and non-U.S. holders should consult their tax advisors regarding the U.S. federal income tax consequences of an investment in the notes, as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction (including that of the Bank and those of the issuers of the reference asset constituent stocks).

VALIDITY OF THE NOTES

In the opinion of Cadwalader, Wickersham & Taft LLP, as special counsel to the issuer, when the notes offered by this pricing supplement have been executed and issued by the issuer and authenticated by the trustee pursuant to the indenture and delivered, paid for and sold as contemplated herein, the notes will be valid and binding obligations of the issuer, enforceable against the issuer in accordance with their terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium, receivership or other laws relating to or affecting creditors' rights generally, and to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity). This opinion is given as of the date hereof and is limited to the laws of the State of New York. Insofar as this opinion involves matters governed by Canadian law, Cadwalader, Wickersham & Taft LLP has assumed, without independent inquiry or investigation, the validity of the matters opined on by Osler, Hoskin & Harcourt LLP, Canadian legal counsel for the issuer, in its opinion expressed below. In addition, this opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the indenture and, with respect to the notes, authentication of the notes and the genuineness of signatures and certain factual matters, all as stated in the opinion of Cadwalader, Wickersham & Taft LLP dated November 30, 2018 filed with the SEC as Exhibit 5.3 to the Registration Statement on Form F-3 on November 30, 2018.

In the opinion of Osler, Hoskin & Harcourt LLP, the issue and sale of the notes has been duly authorized by all necessary corporate action of BNS in conformity with the Indenture, and when the notes have been duly executed, authenticated and issued in accordance with the Indenture, the notes will be validly issued and, to the extent validity of the notes is a matter governed by the laws of the Province of Ontario, or the laws of Canada applicable therein, and will be valid obligations of BNS, subject to the following limitations (i) the enforceability of the Indenture may be limited by the Canada Deposit Insurance Corporation Act (Canada), the Winding-up and Restructuring Act (Canada) and bankruptcy, insolvency, reorganization, receivership, moratorium, arrangement or winding-up laws or other similar laws affecting the enforcement of creditors' rights generally; (ii) the enforceability of the Indenture may be limited by equitable principles, including the principle that equitable remedies such as specific performance and injunction may only be granted in the discretion of a court of competent jurisdiction; (iii) pursuant to the Currency Act (Canada) a judgment by a Canadian court must be awarded in Canadian currency and that such judgment may be based on a rate of exchange in existence on a day other than the day of payment; and (iv) the enforceability of the Indenture will be subject to the limitations contained in the Limitations Act, 2002 (Ontario), and such counsel expresses no opinion as to whether a court may find any provision of the Indenture to be unenforceable as an attempt to vary or exclude a limitation period under that Act. This opinion is given as of the date hereof and is limited to the laws of the Province of Ontario and the federal laws of Canada applicable thereto. In addition, this opinion is subject to customary assumptions about the Trustees' authorization, execution and delivery of the Indenture and the genuineness of signatures and certain factual matters, all as stated in the letter of such counsel dated November 30, 2018, which has been filed as Exhibit 5.2 to BNS's Form F-3 filed with the SEC on November 30, 2018.

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bottom">

Stock-based compensation:

Performance shares

(2,148) 5,995 3,847

Stock options

381 4 (504) 9,103 8,603

Restricted stock and other

48 (498) 1,010 512

Common stock repurchased

(2,633) (26) (51,144) (51,170)

Reclassification of additional paid-in-capital to retained earnings

35,036 (35,036)

Cash dividends, $.21 per share

(5,100) (5,100)

May 1, 2004

23,455 235 7,173 (5,527) (7,305) 314,290 308,866

Net income

34,196 34,196

Adjustment for foreign currency translation

8,687 8,687

Minimum pension liability adjustment (net of tax of $1,574)

(3,083) (3,083)

Comprehensive income, net of tax

39,800

Stock-based compensation:

Performance shares

41 (136) 2,357 2,221

Stock options

145 1 (523) 1,697 1,175

Restricted stock and other

55 1 (431) 1,162 732

Common stock repurchased

(2,250) (23) (47,143) (47,166)

Reclassification of additional paid-in-capital to retained earnings

41,927 (41,927)

Cash dividends, $.30 per share

(6,745) (6,745)

April 30, 2005

21,446	$214	$15,860	$(8,610)	$(8,395)	$	$299,814	$298,883

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

HANDLEMAN COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED APRIL 30, 2005, MAY 1, 2004 and MAY 3, 2003

(in thousands of dollars)

	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 34,196	$ 35,837	$ 24,874
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation	17,636	16,038	17,614
Unrealized benefit plan investment income	(736)		
Amortization of acquisition costs			135
Recoupment/amortization of acquired rights		9,417	22,440
Loss on disposal of property and equipment	1,192	1,328	1,730
Impairment of subsidiary assets		1,829	33,100
Deferred income taxes	5,009	4,723	2,674
Stock-based compensation	2,215	9,049	6,542
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(11,348)	(31,769)	26,016
(Increase) decrease in merchandise inventories	(8,035)	6,261	18,951
(Increase) decrease in other operating assets	(3,423)	2,698	5,375
Decrease in accounts payable	(141)	(25,652)	(41,985)
Increase (decrease) in other operating liabilities	(15,389)	9,298	(9,935)
Total adjustments	(13,020)	3,220	82,657
Net cash provided from operating activities	21,176	39,057	107,531
Cash flows from investing activities:			
Additions to property and equipment	(17,008)	(23,259)	(16,804)
Proceeds from disposition of properties and equipment	692	250	4,746
Purchases of short-term investments	(136,875)	(408,025)	(235,000)
Sales of short-term investments	146,775	406,325	226,800
Acquired rights		(6,522)	(16,990)
Proceeds from the sale of subsidiary companies		58,726	26,641
Additional investments in subsidiary companies			(5,840)
Net cash provided from (used by) investing activities	(6,416)	27,495	(16,447)
Cash flows from financing activities:			
Issuances of debt	1,330,501	299,617	1,779,849
Repayments of debt	(1,330,501)	(306,760)	(1,830,026)
Checks issued in excess of cash balances	863		
Cash dividends	(6,745)	(5,100)	
Repurchases of common stock	(47,166)	(51,170)	(13,572)
Cash proceeds from stock-based compensation plans	1,913	3,913	2,300
Net cash used by financing activities	(51,135)	(59,500)	(61,449)

Effect of exchange rate changes on cash	3,388	2,263	4,609
Net increase (decrease) in cash and cash equivalents	(32,987)	9,315	34,244
Cash and cash equivalents at beginning of year	63,813	54,498	20,254
Cash and cash equivalents at end of year	$ 30,826	$ 63,813	$ 54,498

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

Business

The Company had previously operated in two business segments: category management and distribution operations, formerly known as Handleman Entertainment Resources (H.E.R.) and proprietary operations, formerly known as North Coast Entertainment (NCE). The category management and distribution operating segment, principally related to pre-recorded music product, operates in North America and the United Kingdom (UK). Proprietary operations included licensing and manufacture of proprietary and public domain music and video product. As a result of the sale of certain subsidiary companies, as discussed below, beginning in fiscal 2005, the Company s operations only comprise category management and distribution operations. Reference should be made to Note 10 of Notes to Consolidated Financial Statements for additional information regarding segments.

During the second quarter of fiscal 2004, which ended November 1, 2003, the Company committed to a plan, and reached an agreement, to sell certain of its subsidiary companies (generally known as Anchor Bay Entertainment) within its proprietary operations business segment. In accordance with applicable accounting standards, the financial results of these subsidiary companies are reported separately as discontinued operations in the Company s Consolidated Statements of Income for all periods presented. See Note 2 of Notes to Consolidated Financial Statements for additional information related to discontinued operations.

Unless otherwise noted, the following Notes to Consolidated Financial Statements relate only to results from continuing operations.

Fiscal Year

The Company s fiscal year ends on the Saturday closest to April 30. The fiscal years ended April 30, 2005 (fiscal 2005) and May 1, 2004 (fiscal 2004) consisted of 52 weeks, whereas the fiscal year ended May 3, 2003 (fiscal 2003) consisted of 53 weeks.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries where the Company has voting control. All intercompany accounts and transactions have been eliminated. Minority interest recognized in the Company s Consolidated Statements of Income represents the minority shareholders portion of the income or loss for less than wholly-owned subsidiaries. Since all subsidiary companies are now wholly owned, the minority interest share of net assets no longer existed at April 30, 2005 and May 1, 2004. The Company does not have any material equity investments other than in companies in which it has voting control.

Estimates

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

Foreign Currency Translation

The Company s foreign subsidiaries utilize the local currency as their functional currency. Therefore, the Company follows the guidance outlined in Statement of Financial Accounting Standards (SFAS) No. 52, Foreign Currency Translation, to convert the balance sheets and statements of operations of its foreign subsidiaries to United States (U.S.) dollars. The Company uses an average exchange rate for the period, based on published daily rates, to convert foreign operational transactions to United States dollars. Assets and liabilities of foreign subsidiaries are converted to United States dollars using the prevailing published exchange rate on the last business day of the fiscal period. Common stock and additional paid in capital are converted at historical exchange rates. Resulting translation adjustments are included as a component of Accumulated other comprehensive income. Net transaction gains (losses) included in selling, general and administrative expenses from continuing operations in the Company s Consolidated Statements of Income were $(464,000), $(663,000) and $610,000 for the years ended April 30, 2005, May 1, 2004 and May 3, 2003, respectively.

Reclassifications

The Consolidated Balance Sheet for fiscal year 2004 and the Consolidated Statements of Shareholders Equity and Consolidated Statements of Cash Flows for fiscal years 2004 and 2003 have been conformed to the presentations adopted in fiscal year 2005.

Auction rate securities of $9,900,000 and $8,200,000 at May 1, 2004 and May 3, 2003, respectively, were previously classified in Cash and cash equivalents in the Company s Consolidated Balance Sheets. The classification has been revised; auction rate securities are now classified as Short-term investments in the Company s Consolidated Balance Sheets. Purchases and sales of these securities have been reflected as investing activities in the Company s Consolidated Statements of Cash Flows. The Company did not have an investment in auction rate securities at April 30, 2005.

Disclosure related to stock-based compensation reflected in the Company s Consolidated Statements of Shareholders Equity for fiscal years 2004 and 2003 has been expanded to conform to the presentation adopted in fiscal 2005.

Financial Instruments

The Company has evaluated the fair value of those assets and liabilities identified as financial instruments under SFAS No. 107, Disclosures about Fair Value of Financial Instruments. The Company estimates that fair values generally approximated carrying values at April 30, 2005 and May 1, 2004. Fair values have been determined through information obtained from market sources and management estimates.

Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable

The table below presents information about the components of accounts receivable balances included in the Company s Consolidated Balance Sheets (in thousands of dollars):

	April 30, 2005	May 1, 2004
Trade accounts receivable	$ 243,218	$ 226,994
Less allowances for:		
Gross profit impact of estimated future returns	(8,356)	(8,508)
Doubtful accounts	(2,453)	(2,098)
Accounts receivable, net	$ 232,409	$ 216,388

Inventory Valuation

Merchandise inventories are recorded at the lower of cost (first-in, first-out method) or market. The Company accounts for inventories using the full cost method which includes costs associated with acquiring and preparing inventory for distribution. Costs associated with acquiring and preparing inventory for distribution of $15,354,000, $11,128,000 and $10,908,000 were incurred during the fiscal years ended April 30, 2005, May 1, 2004 and May 3, 2003, respectively, and are classified as a component of direct product costs in the Company s Consolidated Statements of Income. Merchandise inventories as of April 30, 2005 and May 1, 2004 included $1,695,000 and $1,228,000, respectively, of such costs.

Substantially all of the Company s inventory consists of compact discs which are not substandard from a functional standpoint. Typically, the Company s suppliers offer return privileges for excess inventory quantities. Therefore, inventory reserves are provided for the risk that exists related to the carrying value of non-returnable slow moving inventory that may exceed market value, although the effect of markdowns is minimized since the Company s vendors generally offer some level of return allowances and price protection.

Long-Lived Assets

The Company accounts for long-lived assets in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement applies to long-lived assets other than goodwill, and 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.

In the third quarter of fiscal 2003, the Company recorded a $28,034,000 impairment charge under the provisions of SFAS No. 144, related to the sale of its Madacy Entertainment business unit. This impairment charge represents the difference between the net book value of the assets sold and the selling price of those assets. This impairment charge was recorded as Impairment of subsidiary assets in the Consolidated Statements of Income and included in income from continuing operations. This impairment charge, as well as the results of operations for Madacy

Entertainment, was not reported as discontinued operations since not all of the cash flows related to Madacy Entertainment will be eliminated from the ongoing operations of the Company. The Company expected to purchase, and has purchased, a similar level of product from Madacy Entertainment as was purchased prior to the sale, and in turn, has continued to sell the product at a profit margin consistent with historical performance.

In the third quarter of fiscal 2003, the Company recorded a $5,066,000 impairment charge under the provisions of SFAS No. 144, related to the refocusing of its e-commerce subsidiary, Handleman Online.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

As part of this refocusing strategy, the Company decided to discontinue internet services such as website hosting, maintenance and support, and focus solely on consumer direct fulfillment and category management services. This impairment charge was recorded as Impairment of subsidiary assets in the Consolidated Statements of Income and included in income from continuing operations. This impairment charge comprised the following (in thousands of dollars):

Category	**Impairment Amount**	
Computer hardware and software	$	4,829
Employee termination benefits		152
Operating lease and service contract termination costs		85
Total	$	5,066

The computer hardware and software used to support these exited internet services no longer had any economic value to the Company since the cost of this asset group was not recoverable through future undiscounted cash flows.

Other Liabilities

Other liabilities in the Company s Consolidated Balance Sheets included an accrual related to the Supplemental Executive Retirement Plan of $9,295,000 and $5,601,000 as of April 30, 2005 and May 1, 2004, respectively.

Treasury Stock

The Company repurchases shares of its common stock pursuant to authorizations approved by its Board of Directors. Upon repurchase, the Company immediately retires the shares and, as a result, records a reduction in the number of common shares outstanding along with a reduction to additional paid-in-capital (representing the excess of the purchase price over the par value of the shares repurchased) in the period of repurchase/retirement. These transactions generally result in a negative balance in additional paid-in-capital, which is subsequently reclassified to retained earnings. The effect of these share repurchase transactions on common shares and shareholders equity is included in the Company s Consolidated Statements of Shareholders Equity for all periods presented.

Recognition of Revenue and Future Returns

Revenues are recognized upon delivery of product to customers (FOB destination). As a category manager of music product, the Company coordinates freight service for product purchased by its customers with the assumption of risk effectively remaining with the Company until its customers receive the product. Customer inspection of merchandise is not a condition of the sale. The Company also manages product returns which include both salable and non-salable product, as well as damaged merchandise, and provides credit for such customer product returns. The Company reduces revenues and direct product costs for estimated future returns at the time of revenue recognition. The estimate for future returns includes both salable and non-salable product. On a quarterly basis, the Company reviews the estimates for future returns and records adjustments as necessary.

Direct Product Costs

As a distributor of music product, the Company is a reseller of finished goods. Accordingly, substantially all of the Company s direct product costs relate to its purchase price from suppliers for finished music products shipped from the Company to customers. The Company computes direct product costs at an item specific level based on the lower of cost (first-in, first-out method) or market at the time of product shipment to customers. Direct product costs also include costs associated with acquiring and preparing inventory for distribution, as well as inventory reserves, supplier discounts and residual advertising related items.

Selling, General and Administrative Expenses

The major components of the Company s selling, general and administrative expenses included in its Consolidated Statements of Income are as follows:

- labor expense, which includes field sales, warehouse, corporate office labor, and stock-based compensation expense along with associated payroll taxes and fringe benefits;
- freight expense related to product shipments to customers;
- outside information technology related services;
- depreciation expense, which includes depreciation of Company-owned display fixtures located in customers retail stores;
- travel; and
- supplies expense.

Shipping and Handling (Freight Expense)

The Company generally does not bill customers for shipping and handling costs incurred. Shipping and handling costs associated with shipments to and returns from customers are paid by the Company and included in selling, general and administrative expenses in the Consolidated Statements of Income. Customer related shipping and handling costs included in selling, general and administrative expenses from continuing operations were $15,236,000, $13,952,000 and $13,847,000 for fiscal years 2005, 2004 and 2003, respectively.

Stock-Based Compensation

The Company has stock-based compensation plans in the form of stock options, performance shares and restricted stock. Stock options issued prior to fiscal 2004 are accounted for under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees and Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 44, Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB Opinion No. 25). Compensation expense for the Company s stock-based plans accounted for under APB Opinion No. 25 has been reflected in net income for all years presented in the Company s Consolidated Statements of Income, as all awards granted under these plans have been accounted for under the variable accounting method. Under variable accounting, the excess of market value over the option price of outstanding stock options is determined at each reporting period and aggregate compensation expense is adjusted and recognized over the vesting period. Compensation expense associated with vested options continues to be adjusted to the market value of the options until the options are either exercised or terminated. Effective May 4, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation. The Company selected the prospective transition method, as defined in SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment to SFAS No. 123. Under the prospective method, all stock-based awards issued after May 3, 2003 are accounted for utilizing the fair value provisions of SFAS No. 123 and are expensed over the vesting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The pre-tax costs related to stock-based compensation included in the determination of net income for the fiscal years ended April 30, 2005, May 1, 2004 and May 3, 2003 was $4,670,000, $13,198,000 and $6,542,000, respectively. The following table illustrates the effect on net income and earnings per share if the fair value recognition provisions of SFAS No. 123 had been applied to all stock-based awards for each period presented (in thousands of dollars except per share data):

	2005	2004	2003
Net income	$ 34,196	$ 35,837	$ 24,874
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	3,059	8,447	4,946
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(5,061)	(4,394)	(2,796)
Proforma net income	$ 32,194	$ 39,890	$ 27,024
Net income per share:			
Reported basic	$ 1.52	$ 1.46	$ 0.95
diluted	1.51	1.45	0.95
Proforma basic	1.43	1.63	1.04
diluted	1.43	1.62	1.04

The fair value of each option grant was estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for fiscal years 2005, 2004 and 2003:

	2005	2004	2003
Expected life (in years)	4.8	4.7	5.0
Risk-free interest rate	3.89%	2.26%	3.72%
Volatility	39.07%	41.42%	43.48%
Dividend yield	1.26%	.05%	

The weighted average estimated fair value of stock options granted during fiscal years 2005, 2004 and 2003 was $8.02, $6.51 and $5.17, respectively.

Income Taxes

The provision for income taxes is based on reported income before income taxes and minority interest. Deferred income taxes are provided for the effect of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and amounts recognized for income tax purposes. Valuation allowances are recognized to reduce deferred tax assets when it is more likely than not that the assets will not be realized. In assessing the likelihood of realization, consideration is given to estimates of future taxable income, the character of income needed to realize future benefits and all available evidence.

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Earnings Per Share

The Company computes diluted earnings per share from net income in accordance with SFAS No. 128, Earnings Per Share. A reconciliation of the weighted average shares used in the calculation of basic and diluted shares is as follows (in thousands):

	April 30, 2005	May 1, 2004	May 3, 2003
Weighted average shares during the period basic	22,500	24,521	26,046
Additional shares from assumed exercise of stock-based compensation	84	140	
Weighted average shares adjusted for assumed exercise of stock options diluted	22,584	24,661	26,046

No additional shares were included for the fiscal year ended May 3, 2003, since the effect would have been anti-dilutive.

New Accounting Pronouncements

In November 2004, SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 was issued by the FASB. SFAS No. 151 requires that items such as idle facility expense, excessive spoilage, double freight and re-handling costs be recognized as charges in the current period. This Statement also requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company has evaluated SFAS No. 151 and does not expect that this Statement will have an impact on its operating results.

In December 2004, SFAS No. 123R, Share-Based Payment (revised 2004), was issued by the FASB. SFAS No. 123R requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award; this cost will be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. Since the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation, effective May 4, 2003, all stock-based awards issued after May 3, 2003 are being expensed over the vesting period using the fair value method. The Company is currently evaluating the new requirements under SFAS No. 123R and will adopt the provisions of this Statement at the beginning of its fiscal year 2007, as required.

In May 2005, SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3, was issued by the FASB. SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS No. 154 also provides that (1) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a restatement. The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The Company will adopt the provisions of this Statement at the beginning of its fiscal year 2007, as necessary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Discontinued Operations

In the second quarter of fiscal 2004, the Company committed to a plan, and reached an agreement, to sell certain of its subsidiary companies (generally known as Anchor Bay Entertainment) within its proprietary operations business segment, formerly known as North Coast Entertainment. The sale of Anchor Bay Entertainment allowed the Company to focus on its core category management and distribution competencies. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the financial results of these subsidiary companies were reported separately as discontinued operations in the Company s Consolidated Statements of Income for all periods presented, since the operations and cash flows of these companies were eliminated from the ongoing operations of the Company. The Company does not have any continuing involvement in the operations of these companies after the disposal transaction. Under the provisions of SFAS No. 144, the Company recorded a pre-tax impairment charge of $665,000 ($1,057,000 after tax) in the second quarter of fiscal 2004, which included fees and legal expenses related to the sales transaction. In the fourth quarter of fiscal 2004, the purchaser requested adjustments to the sale proceeds in accordance with the terms of the purchase agreement. As a result, the Company agreed to certain of the requested adjustments and recorded an additional impairment charge of $1,164,000 ($749,000 after tax). These impairment charges were included in Income from discontinued operations in the Company s Consolidated Statements of Income. Certain requested adjustments remain unresolved and the Company believes its potential exposure is in the range of zero to $7,000,000. However, since no assurance can be given to the resolution of these unresolved requested adjustments, as they are neither probable nor estimatable, no accrual has been recorded for these items. The sale was completed on December 11, 2003 and generated $58,726,000 in cash.

The table below summarizes the major categories of assets and liabilities sold (in thousands of dollars):

Assets	
Accounts receivable	$ 21,545
Merchandise inventories	10,560
Acquired rights	39,717
Property and equipment, net	210
All other operating assets	999
Total assets	$ 73,031
Liabilities	
Accounts payable	$ (6,839)
All other operating liabilities	(6,302)
Total liabilities	$ (13,141)
Adjustment to sale proceeds	$ (1,164)
Total sale proceeds	$ 58,726

In the fourth quarter of fiscal 2004, a licensor of Anchor Bay Entertainment exercised its right to audit its royalty statements. As a result of this audit, the licensor has asserted a claim against Anchor Bay Entertainment for royalties it believes are due it, in the amount of $5,600,000, including interest. Pursuant to the Anchor Bay Entertainment sale agreement, the Company is potentially liable for certain royalty audit claims. During the second quarter of fiscal 2005, the Company recorded a pre-tax charge of $758,000 ($483,000 after tax), representing its best estimate of the amounts it expects to pay in connection with this matter. This charge was included in Income from discontinued operations in the Company s Consolidated Statements of Income. During the third quarter of fiscal 2005, this licensor initiated legal proceedings related to this matter. The Company s maximum remaining exposure is estimated to be

$4,800,000, including interest and expenses, which continue to accrue until the date of resolution. Since no assurance can be given to the resolution of this remaining exposure, as it is neither probable nor estimatable, no additional accrual has been recorded. Additionally, during the fourth quarter of fiscal 2005, the Company recorded a pre-tax charge of $320,000 ($204,000 after tax) representing expenses associated with the termination of a royalty agreement with another licensor of Anchor Bay Entertainment. This charge was included in Income from discontinued operations in the Company s Consolidated Statements of Income.

The table below summarizes revenues and pre-tax income included in income from operations of discontinued subsidiary companies (in thousands of dollars):

	2005	2004	2003
Revenues	$	$ 43,420	$ 78,347
Pre-tax income (loss), including loss on disposal	(1,078)	4,177	8,243

3. Concentration of Credit Risk

The table below sets forth percentage contribution to revenues from continuing operations for the Company s two largest customers:

	Fiscal Years Ended		
	April 30, 2005	May 1, 2004	May 3, 2003
Wal-Mart Stores, Inc.	74%	68%	56%
Kmart Corporation	15	17	29
Total percentage of revenues from continuing operations	89%	85%	85%
Total percentage of accounts receivable balance	92%	84%	

The discontinuance of, or a significant unfavorable change in, the relationship with either of the Company s two largest customers would have a materially adverse effect upon the Company s future revenues and earnings.

During the fourth quarter of fiscal 2005, the Company announced a change in its business relationship with Kmart. In September 2004, Kmart initiated two tests in a limited number of its stores to assess category management, distribution and in-store merchandising of music. As a result of the tests, Handleman Company was advised that it will continue to provide category management and distribution to approximately 1,070 Kmart stores. Another supplier will provide music to Kmart s remaining stores (approximately 400). In addition, Kmart will assume responsibility for the performance of in-store merchandising in all of its stores.

The Company expects its annual sales to be reduced by approximately $50 million, or about four percent, due to these changes in the business arrangement with Kmart. This transition to another supplier in approximately 400 Kmart stores and Kmart assuming responsibility for in-store merchandising will occur during the first quarter of fiscal 2006. The Company believes this change will not have a significant impact on Handleman Company s ongoing operating income as the Company anticipates that it will be able to offset the impact of the lower sales level with cost reductions and sales growth with other customers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The Company incurred costs in the fourth quarter of fiscal 2005 in connection with this change in its business relationship with Kmart. In accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, one-time termination benefit costs communicated to employees prior to April 30, 2005 were recorded in the fourth quarter of 2005 in the amount of $464,000 and is included in Selling, general and administrative expenses in the Company s Consolidated Statements of Income. The Company expects that additional costs related to termination benefits will be incurred in the first quarter of fiscal 2006 of approximately $400,000.

4. Property and Equipment

Property and equipment consists of the following (in thousands of dollars):

	2005	2004
Land	$ 640	$ 640
Buildings and improvements	13,225	13,152
Display fixtures	29,619	33,154
Computer hardware and software	57,453	49,289
Equipment, furniture and other	33,924	35,329
	134,861	131,564
Less accumulated depreciation	74,681	69,440
Total property and equipment, net	$ 60,180	$ 62,124

Property and equipment is recorded at cost. Upon retirement or disposal, the asset cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in results of operations for the period. Repair costs are charged to expense as incurred.

In accordance with Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, the Company capitalizes internal labor costs associated with developing computer software. Such costs are depreciated over the expected life of the software, generally three to seven years.

The Company includes depreciation expense in selling, general and administrative expenses in its Consolidated Statements of Income. Depreciation is computed primarily using the straight-line method based on the following estimated useful lives:

Display fixtures	2-5 years
Computer hardware and software	3-7 years
Equipment, furniture and other	3-6 years
Buildings and improvements	10-40 years

Leasehold improvements	Lesser of the lease term or the useful life

5. Goodwill and Intangible Assets

Goodwill

The Company accounts for goodwill and intangible assets in accordance with SFAS No. 142, Goodwill and Intangible Assets, which requires accounting for goodwill and other intangible assets with indefinite lives with 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 performs impairment analyses for goodwill as of the end of each fiscal year. The Company does not have any intangible assets, other than goodwill, which are not subject to amortization.

Goodwill represents the excess of consideration paid over the estimated fair values of net assets of businesses acquired. Goodwill included in the Consolidated Balance Sheets as of April 30, 2005 and May 1, 2004 remained unchanged year over year at $3,406,000, which was net of amortization of $1,224,000, and resulted from the acquisition of the UK operation in fiscal 2000.

Intangible Assets (Acquired Rights)

The Company, principally in its proprietary operations business segment, acquired rights to video licenses giving it the exclusive privilege to manufacture and distribute such products. The costs of acquired rights included advances paid to licensors and costs to create masters to be used for duplication. As discussed in Note 2 of Notes to Consolidated Financial Statements, the Company sold certain subsidiary companies in fiscal 2004, and assets of these subsidiary companies included all intangible assets of the Company, as well as all accrued royalties. As a result, there were no intangible assets or accrued royalties in the Company s Consolidated Balance Sheets as of April 30, 2005 or May 1, 2004. Aggregate amortization expense for fiscal years 2005, 2004 and 2003 were $0, $9,417,000 and $22,456,000, respectively.

6. Debt

The Company has an unsecured $150,000,000 line of credit arrangement with a consortium of banks, which was amended twice during fiscal 2005. The amendments extended the facility through August 2007 and clarified certain covenants. At April 30, 2005, borrowings available under the credit agreement were $146,639,000 after $3,361,000 of outstanding letters of credit. The Company had no borrowings outstanding at that date. The Company may elect to pay interest under a variety of formulae tied principally to either prime or LIBOR. As of April 30, 2005, the most favorable interest rate the Company could borrow under was 3.84%. The weighted average amount of borrowings outstanding under the credit agreement were $13,141,000 and $1,572,000 for the years ended April 30, 2005 and May 1, 2004, respectively. The weighted average interest rates under the credit agreement were 3.32% for the year ended April 30, 2005 and 3.25% for the year ended May 1, 2004.

The borrowing base under the revolving credit agreement is limited to the lesser of (a) $150,000,000, (b) 80% of the net accounts receivable balances plus 100% of the cash balances of United States companies, Handleman Canada and Handleman UK; however, Handleman Canada and Handleman UK balances are included only to the extent of their intercompany balances, or (c) $150,000,000 less amounts outstanding under its subsidiary credit facilities.

The revolving credit agreement contains certain restrictions and covenants, relating to, among others, minimum debt service ratio, maximum leverage ratio and minimum consolidated tangible net worth. As of April 30, 2005, the Company was in compliance with all these various provisions.

A subsidiary has a £12,000,000 credit facility (approximately $22,886,000 U.S.) with a certain bank. As of April 30, 2005, the interest rate was 6.25% and no amounts were outstanding. The Company has guaranteed repayment of amounts borrowed under this facility, and the Company s revolving credit agreement is lowered by any outstanding borrowings under this facility.

In fiscal 1995, the Company entered into a $100,000,000 senior note agreement, as amended, with a group of insurance companies. During the second quarter of fiscal 2004, the Company prepaid its outstanding debt under the senior note agreement in the amount of $7,142,000 ($3,571,000 was scheduled to mature in February 2004 with the remaining $3,571,000 scheduled to mature in February 2005). As a result of the early payment, the Company incurred a pre-payment cost of $474,000, which is included in Investment income, net in the Company s Consolidated Statements of Income in fiscal 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Investment income, net from continuing operations for the years ended April 30, 2005, May 1, 2004 and May 3, 2003 was $2,457,000, $641,000 and $230,000, respectively, and included interest expense of $556,000, $995,000 and $1,103,000, respectively. Investment income, net in fiscal 2005 also included investment gains of $737,000 related to the Company s Supplemental Executive Retirement Plan (SERP).

Total interest paid for the years ended April 30, 2005, May 1, 2004 and May 3, 2003 was $556,000, $1,200,000 and $1,773,000, respectively.

7. Pension Plan

The Company has two defined benefit pension plans (Pension Benefits) that cover substantially all full-time U.S. and Canadian employees**.** In addition, the Company has two nonqualified post retirement plans, U.S. and Canadian Supplemental Executive Retirement Plans, which cover select employees. The Canadian SERP began during the second quarter of fiscal 2005. The information below, for all periods presented, combines U.S. and Canadian pension plans and U.S. and Canadian SERP.

Obligations and Funded Status

The projected benefit obligation, fair value of plan assets and funded status at April 30, 2005 and May 1, 2004 for the two defined benefit pension plans and SERP are as follows (in thousands of dollars):

	Pension Benefits		SERP	
	2005	**2004**	**2005**	**2004**
Change in projected benefit obligation:				
Benefit obligation at beginning of year	$ 48,057	$ 40,318	$ 8,700	$ 6,760
Past service cost			231	
Service cost	1,818	1,642	572	432
Interest cost	3,060	2,724	590	523
Amendments				
Actuarial loss	7,608	4,638	1,609	1,117
Benefits paid	(1,496)	(1,265)	(45)	(132)
Projected benefit obligation at end of year	$ 59,047	$ 48,057	$ 11,657	$ 8,700
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 36,290	$ 26,608	$	$
Actual return on plan assets	1,664	2,403		
Net realized gain on the sale of assets	300	781		
Unrealized appreciation	1,000	1,224		
Company contributions	9,039	6,538	45	132
Benefits paid	(1,496)	(1,265)	(45)	(132)

Fair value of plan assets at end of year	$ 46,797	$ 36,289	$	$
Funded status at end of year	$ (12,250)	$ (11,768)	$ (11,657)	$ (8,700)
Unrecognized net loss from past experience different from that assumed	20,047	13,801	4,002	2,689
Unrecognized net gain from excess funding				
Unrecognized prior service cost	938	1,144	905	898
Minimum pension liability	(11,523)	(7,683)	(1,907)	(1,090)
Accrued benefit cost	$ (2,788)	$ (4,506)	$ (8,657)	$ (6,203)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Amounts recognized in the Company s Consolidated Balance Sheets at April 30, 2005 and May 1, 2004 are as follows (in thousands of dollars):

	Pension Benefits		SERP	
	2005	2004	2005	2004
Prepaid benefit costs	$ 132	$ 88	$	$
Accrued benefit costs	(3,858)	(5,738)	(9,492)	(7,101)
Intangible assets	938	1,144	835	898
Net liability	(2,788)	(4,506)	(8,657)	(6,203)
Accumulated and other comprehensive income	11,523	7,683	1,907	1,090
Net amount recognized	$ 8,735	$ 3,177	$ (6,750)	$ (5,113)

The accumulated benefit obligation for the two defined benefit pension plans was $50,500,000 and $41,719,000 at April 30, 2005 and May 1, 2004, respectively. The accumulated benefit obligation for SERP was $9,492,000 and $7,101,000 at April 30, 2005 and May 1, 2004, respectively.

The Company s two defined benefit pension plans and SERP have accumulated benefit obligations in excess of plan assets as follows (in thousands of dollars):

	Pension Benefits		SERP	
	2005	2004	2005	2004
Projected benefit obligation	$ 59,047	$ 48,057	$ 11,657	$ 8,700
Accumulated benefit obligation	50,500	41,719	9,492	7,101
Fair value of plan assets	46,797	36,289		

Components of net periodic benefit cost are as follows (in thousands of dollars):

	Pension Benefits			SERP		
	2005	2004	2003	2005	2004	2003
Service cost	$ 1,818	$ 1,642	$ 1,301	$ 572	$ 432	$ 348
Interest cost	3,060	2,724	2,351	590	523	396
Expected return on plan assets	(3,038)	(2,458)	(2,128)			

Amortization of unrecognized prior service cost and actuarial gain	1,650	1,705	374	520	513	274
Net periodic benefit cost	$ 3,490	$ 3,613	$ 1,898	$ 1,682	$ 1,468	$ 1,018

Additional Information (in thousands of dollars)

	Pension Benefits		**SERP**	
	2005	**2004**	**2005**	**2004**
Increase in minimum liability included in other comprehensive income	$ 3,840	$ 1,135	$ 817	$ 1,090

Assumptions

Weighted average assumptions used to determine the actuarial present value of the projected benefit obligation at April 30, 2005 and May 1, 2004 are as follows:

	2005	2004
Discount rate	5.50%	6.25%
Rate of compensation increase	5.00	5.00

Weighted average assumptions used to determine net periodic benefit cost for the years ended April 30, 2005 and May 1, 2004 are as follows:

	2005	2004
Discount rate	6.25%	6.50%
Expected long-term return on plan assets	8.00	8.25
Rate of compensation increase	5.00	5.00

Plan Assets

The Company s two defined benefit pension plans weighted-average asset allocations at April 30, 2005 and May 1, 2004, by asset category, are as follows:

	Pension Benefits	
	2005	2004
Asset Category		
Equity securities	59.77%	60.70%
Debt securities	34.68	36.00
Real estate	1.28	1.30
Other	4.27	2.00
Total	100.00%	100.00%

Pension plan assets are invested in various mutual funds and individual securities, which are overseen by three independent investment advisers. The Pension Trust held no shares of Handleman Company common stock at April 30, 2005 and May 1, 2004.

The Company s strategy for pension plan assets is to provide for growth of capital with a moderate level of volatility by investing in assets per the target allocation (range of 0% 5% cash, 45% 65% equity, 30% 50% fixed income and 0% 10% REITs). The assets are reallocated periodically within the target allocations, under the advisement of the investment advisors.

The expected long-term rate of return on assets was 8.00% for fiscal 2005 and 8.25% for fiscal 2004. The basis used to determine the overall expected long-term rate of return on assets was the expected return of each of the above categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 10% to 11% over the long-term, while cash and fixed income are expected to return between 4% and 6%.

Cash Flows

The Company expects to contribute approximately $6,000,000 to its two defined benefit pension plans in fiscal 2006.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands of dollars):

	Pension Benefits	SERP
2006	$ 1,561	$ 103
2007	1,661	152
2008	1,782	204
2009	2,038	861
2010	2,224	538
2011-2015	15,802	7,358

8. Stock Plans

The Company is authorized to grant stock options, performance shares and restricted stock under three plans. The Company s 2004 Stock Plan was approved by the Company s shareholders during the second quarter of fiscal 2005. The Company s 2001 Stock Option and Incentive Plan was approved during fiscal 2002. The Company s 1998 Stock Option and Incentive Plan continues in effect for outstanding awards under that plan.

On April 6, 2004, the Company s Board of Directors approved amendments to the Company s 2001 Stock Option and Incentive Plan and the 1998 Stock Option and Incentive Plan. As a result of these amendments, restricted stock can be issued in book entry form by Handleman Company s stock transfer agent.

On February 24, 2004 and April 6, 2004, the Company s Board of Directors approved amendments to the Company s 2001 Stock Option and Incentive Plan and the 1998 Stock Option and Incentive Plan, respectively. As a result of these amendments, stock options held by employees or directors who retire from the Company will no longer vest immediately upon retirement but will instead, with the consent of the Compensation Committee, continue to vest following retirement in accordance with the vesting schedule established at the time the options were granted.

The maximum number of shares of stock that may be issued under the 2004 Stock Plan is 750,000 shares. After deducting stock options, performance shares and restricted stock issued or granted under this plan since adoption in September 2004, 733,500 shares of the Company s stock are available for use under this plan as of April 30, 2005.

The maximum number of shares of stock which may be issued under the 2001 Stock Option and Incentive Plan is 1,600,000 shares. After deducting stock options, performance shares and restricted stock issued or granted under this plan since adoption in September 2001, 266,057 shares of the Company s stock are available for use under this plan as of April 30, 2005.

The Company s 1998 Stock Option and Incentive Plan continues in effect for outstanding awards under this plan; however, no additional shares will be issued out of this plan.

For stock option, performance share and restricted stock grants issued prior to the Company s adoption of SFAS No. 123, Accounting for Stock-Based Compensation effective May 4, 2003, the variable accounting provisions of APB No. 25, Accounting for Stock Issued to Employees and FIN No. 44, Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB Opinion No. 25) are used, whereby the fair market value of the Company s common stock at each interim reporting date is used to adjust the value of granted shares outstanding, which is then amortized to expense ratably over the vesting period of the shares granted. For grants on or after May 4, 2003, the fair value provisions of SFAS No. 123 are used, whereby the fair market value of the Company s common stock on the date of grant is used, and fixed throughout the vesting period, during which expense is ratably amortized. See Note 1, Accounting

Policies, Stock-Based Compensation, of Notes to Consolidated Financial Statements for additional information regarding stock-based compensation.

Stock Options

Information with respect to options outstanding under the previous and current stock plans, which have various terms and vesting periods as approved by the Compensation Committee of the Board of Directors, for the years ended May 3, 2003, May 1, 2004 and April 30, 2005 is set forth below. Options were granted during such years at no less than fair market value at the date of grant.

	Number of Shares	Weighted Average Price
Balance as of April 27, 2002	1,402,779	$ 12.16
Granted	439,700	$ 11.87
Terminated	(199,912)	$ 12.95
Exercised	(495,498)	$ 9.86
Balance as of May 3, 2003	1,147,069	$ 12.89
Granted	264,400	$ 16.83
Terminated	(166,584)	$ 14.40
Exercised	(534,151)	$ 12.38
Balance as of May 1, 2004	710,734	$ 14.39
Granted	291,100	$ 22.47
Terminated	(82,354)	$ 17.20
Exercised	(218,644)	$ 13.86
Balance as of April 30, 2005	700,836	$ 17.55
Exercisable as of April 30, 2005	192,549	$ 14.60

The following table relates to the Company s outstanding and exercisable stock options as of April 30, 2005:

	Total Options Outstanding			Currently Exercisable Options	
Exercise Price Range	**Number of Shares**	**Weighted Avg. Exercise Price**	**Weighted Avg. Remaining Contractual Life**	**Number of Shares**	**Weighted Avg. Exercise Price**

$10.00 - $12.99	158,568	$	11.69	84 months	55,087	$	11.55
$13.00 - $16.99	282,868	$	16.33	88 months	137,462	$	15.82
$17.00 - $22.95	259,400	$	22.47	110 months		$	
Total	700,836				192,549		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Performance Shares

The Company grants performance shares to certain employees as authorized within its stock plans. The performance shares expected to be issued are based upon achieving free cash flow objectives, as defined, and vest over a three-year period. Expense recorded for performance shares is recognized over the vesting period and is based upon the probability of meeting the Company s performance target, and is adjusted periodically, as required.

In fiscal years 2005, 2004 and 2003, the Company granted 237,000, 214,200 and 156,200 performance shares, net of forfeitures, of its common stock, respectively, under the plans. The performance shares issued in fiscal years 2005, 2004 and 2003 will be distributed to the participants if certain fixed performance criteria are satisfied by April 28, 2007, April 29, 2006 and April 30, 2005, respectively**.**

Information related to performance shares for fiscal years ended May 3, 2003, May 1, 2004 and April 30, 2005 is as follows:

	Estimated Number of Shares to be Awarded	**Weighted-Average Grant Date Fair Value**	**Maximum Number of Shares Available**
Balance as of April 27, 2002	200,900	$ 12.30	301,350
Granted	207,100	$ 11.83	310,650
Terminated	(45,250)	$ 12.07	(67,875)
Balance as of May 3, 2003	362,750	$ 12.06	544,125
Granted	266,300	$ 16.93	399,450
Terminated	(29,600)	$ 14.42	(44,400)
Adjustment of estimate	173,875	$ 12.06	
Balance as of May 1, 2004	773,325	$ 13.64	899,175
Granted	274,600	$ 22.45	411,600
Terminated	(93,550)	$ 17.94	(140,325)
Adjustment of estimate	97,575	$ 17.49	
Distribution [a]	(259,350)	$ 12.30	(259,350)
Balance as of April 30, 2005	792,600	$ 16.88	911,100

[a] Performance shares granted in fiscal 2002 which vested on May 1, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Restricted Stock

The Company grants restricted stock to certain employees and directors, as authorized within its stock plans. Restricted stock is expensed over the vesting period, which varies by grant.

Restricted stock issued for the fiscal years ended May 3, 2003, May 1, 2004 and April 30, 2005 is as follows:

	Number of Shares Issued	Weighted-Average Grant Date Fair Value
Fiscal 2003	9,036	$ 10.45
Fiscal 2004	30,796	$ 21.82
Fiscal 2005	44,600	$ 21.07

Employee Stock Purchase Plan

In fiscal 2002, the Company s shareholders approved the adoption of the Handleman Company 2001 Employee Stock Purchase Plan (ESPP). The ESPP provides for the grant to eligible employees of the right to purchase common stock of the Company, through payroll deductions, at a price equal to 85% of the lesser of the fair market value of the stock on (a) the first day of an offering period, or (b) the last day of the period. Under the terms of the ESPP, eligible employees may elect to have up to 10% of their regular base earnings withheld to purchase Company stock, with a maximum not to exceed $25,000 for each calendar year. The Company has reserved 700,000 shares of common stock for issuance under the ESPP. As of April 30, 2005, the Company had $85,000 of employee withholdings, included in Accrued and other liabilities in the Consolidated Balance Sheets, to be used to purchase Company stock. Through April 30, 2005, 60,351 shares have been issued to employees under the ESPP since its inception.

9. Commitments and Contingencies

Lease Commitments

The Company, in the normal course of business, enters into non-cancelable operating leases primarily related to buildings and other equipment which expire in various years. Future minimum payments related to these operating leases and commitments are as follows (in thousands of dollars):

Fiscal Years	Amount

2006	$ 7,298
2007	6,703
2008	5,381
2009	4,596
2010	2,795
Thereafter	7,335
Total	$ 34,108

Rental expense from continuing operations from operating leases was $8,856,000, $10,077,000 and $10,044,000 in fiscal years 2005, 2004 and 2003, respectively.

Guarantees

In November 2002, the FASB issued FIN No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN No. 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees and clarifies that a guarantor is required to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing those guarantees. The Company guarantees certain liabilities for wholly-owned subsidiary companies, which are included in the consolidated financial statements of the Company. The Company does not have any significant guarantees of unconsolidated affiliates or third party debt requiring disclosure under the provisions of FIN No. 45.

The Company had approximately $3,361,000 in letters of credit associated with the requirement to fund certain expenditures related to workers compensation benefits as of April 30, 2005.

The Company has tax indemnification agreements with Anchor Bay Entertainment and Madacy Entertainment as a result of the sale of those business units in fiscal 2004 and fiscal 2003, respectively. Under the terms of the agreements, the Company may be responsible for any tax liabilities identified subsequent to the sale of those companies.

Litigation

In January 2002, Kmart Corporation filed for Chapter 11 bankruptcy protection and requested that the Bankruptcy Court designate Handleman Company and several other companies critical trade vendors. The Bankruptcy Court granted Kmart s request and as a result of being named a critical trade vendor, Handleman received $49.0 million in payment of Kmart s obligations. In April 2003, the United States District Court ruled that the Bankruptcy Court s designation regarding critical trade vendors was not appropriate under the Bankruptcy Code. In May 2003, Kmart emerged from bankruptcy. In June 2003, Kmart filed a complaint before the Bankruptcy Court requesting that the Bankruptcy Court require the Company to repay the $49.0 million critical trade vendor payment, although the April 2003 District Court s order did not require repayment of the amounts received by the critical trade vendors. During the third quarter of fiscal 2005, the Company settled this legal proceeding with Kmart. This settlement did not have a material impact on the financial results of the Company for the fiscal year ended April 30, 2005.

See Note 2 of Notes to Consolidated Financial Statements for a discussion of contingencies related to discontinued operations.

There are no additional pending legal proceedings to which the Registrant or any of its subsidiaries is a party, other than routine legal matters which are incidental to the business and the ultimate outcome of which are not expected to be material to future results of consolidated operations, financial position and cash flows. The Company has provided for all claims and legal proceedings based on its best estimate of the amounts it expects to pay.

In fiscal 2003, the Securities and Exchange Commission (SEC) initiated a formal investigation relating to a transaction entered into in fiscal 2001 with a non-music vendor by a subsidiary of the Company. In response to this SEC investigation, the Company, through its Audit Committee, conducted its own internal review which focused on the accounting treatment for two non-music vendor contracts (one of which was the subject of the SEC investigation). These contracts were approximately $1.0 million each (both occurring in fiscal 2001). As a result of this review, the Company determined that both contracts should have been recorded as financing arrangements and the two transactions were reflected as such in the Company s financial statements for fiscal years 2002 and 2001. The Company was advised on February 8, 2005 that the SEC s investigation was terminated and that the staff of the SEC did not recommend enforcement action against the Company to the Commission.

10. Segment Information

As described in Note 2 of Notes to Consolidated Financial Statements, the Company sold certain subsidiary companies in the second quarter of fiscal 2004, all of which had previously been reported in the proprietary operations business segment. As a result of the sale of these subsidiary companies, beginning in fiscal 2005, the Company s operations only comprise category management and distribution operations, formerly known as Handleman Entertainment Resources.

The accounting policies of the segments are the same as those described in Note 1, Accounting Policies. Segment data includes intersegment revenues, as well as a charge allocating all corporate costs to the operating segments. The Company evaluated performance of its segments and allocated resources to them based on income before interest, income taxes and minority interest (segment income).

Fiscal 2004 amounts below represent all category management and distribution operations, as well as activity from remaining proprietary operations other than from those companies which were sold in fiscal 2004. Fiscal 2003 amounts represent all category management and distribution operations, as well as proprietary operations results including Madacy Entertainment, which was sold in the third quarter of fiscal 2003, and activity from remaining proprietary operations other than from those companies which were sold in the second quarter of fiscal 2004 (as those amounts are classified as discontinued operations).

The tables below present information about reported segments for the years ended April 30, 2005, May 1, 2004 and May 3, 2003 (in thousands of dollars):

	Category Management and Distribution Operations	Proprietary Operations	Total
Fiscal 2005:			
Revenues, external customers	$ 1,260,585	$	$ 1,260,585
Segment income	49,560		49,560
Total assets	483,073		483,073
Capital expenditures	17,008		17,008
Fiscal 2004:			
Revenues, external customers	$ 1,214,026	$ 129	$ 1,214,155
Segment income (loss)	51,241	(416)	50,825
Total assets	501,500	107	501,607

Capital expenditures	23,227		23,227
Fiscal 2003:			
Revenues, external customers	$ 1,247,500	$ 31,498	$ 1,278,998
Intersegment revenues		17,037	17,037
Segment income (loss), including impairment of subsidiary assets of $5,066 and $28,034 for category management and distribution operations and proprietary operations, respectively, (see Note A)	51,985	(29,482)	22,503
Total assets	477,256	81,597	558,853
Capital expenditures	16,386	364	16,750

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Note A Fiscal 2003 segment income includes impairment of subsidiary assets relating to category management and distribution operations and proprietary operations. The Company recorded a $5,066,000 impairment charge for category management and distribution operations related to the refocusing of its e-commerce subsidiary, Handleman Online, and a $28,034,000 impairment charge for proprietary operations related to the sale of its Madacy Entertainment business unit. Both of these charges were recorded under the provisions of SFAS No. 144 and are discussed in further detail in Note 1, Accounting Policies, Long-Lived Assets, of Notes to Consolidated Financial Statements.

A reconciliation of total segment revenues to consolidated revenues from continuing operations, total segment income to consolidated income from continuing operations before income taxes and minority interest, and total segment assets to consolidated assets as of and for the years ended April 30, 2005, May 1, 2004 and May 3, 2003 is as follows (in thousands of dollars):

	2005	2004	2003
Revenues			
Total segment revenues	$ 1,260,585	$ 1,214,155	$ 1,296,035
Corporate revenues		2,156	584
Elimination of intersegment revenues			(17,037)
Consolidated revenues from continuing operations	$ 1,260,585	$ 1,216,311	$ 1,279,582
Income Before Income Taxes and Minority Interest			
Total segment income for reportable segments	$ 49,560	$ 50,825	$ 22,503
Interest/investment income	3,013	1,636	1,333
Interest expense	(556)	(995)	(1,103)
Unallocated corporate income	1,279	353	1,442
Consolidated income from continuing operations before income taxes and minority interest	$ 53,296	$ 51,819	$ 24,175

	2005	2004
Assets		
Total segment assets	$ 483,073	$ 501,607
Elimination of intercompany receivables and payables	(6,074)	(7,015)
Consolidated assets	$ 476,999	$ 494,592

Revenues from continuing operations and long-lived assets information by geographic area, which is based upon the country in which the legal subsidiary is domiciled, as of and for the years ended April 30, 2005, May 1, 2004 and May 3, 2003 are as follows (in thousands of dollars):

	Revenues From Continuing Operations		
	2005	2004	2003

United States	$ 827,413	$ 840,816	$ 978,535
United Kingdom	294,393	246,091	191,619
Canada	138,198	115,958	97,480
Other foreign	581	13,446	11,948
	$ 1,260,585	$ 1,216,311	$ 1,279,582

	Long-Lived Assets	
	2005	2004
United States	$ 70,269	$ 74,574
United Kingdom	4,726	5,150
Canada	3,028	2,110
Other foreign		125
	$ 78,023	$ 81,959

11. Income Taxes

The domestic and foreign components of income from continuing operations before income taxes and minority interest for the years ended April 30, 2005, May 1, 2004 and May 3, 2003 are as follows (in thousands of dollars):

	2005	2004	2003
Domestic	$ 30,411	$ 34,144	$ 24,820
Foreign	22,885	17,675	(645)
Income from continuing operations before income taxes and minority interest	$ 53,296	$ 51,819	$ 24,175

Provisions for income taxes related to income from continuing operations for the years ended April 30, 2005, May 1, 2004 and May 3, 2003 consist of the following (in thousands of dollars):

	2005	2004	2003
Currently payable:			
Federal	$ 7,777	$ 11,290	$ 1,799
Foreign	4,582	5,024	456
State and other	1,045	561	400
	13,404	16,875	2,655
Deferred, net:			
Federal	908	(102)	720
Foreign	3,476	1,398	438
State and other	625	(340)	882
	5,009	956	2,040
	$ 18,413	$ 17,831	$ 4,695

The following table provides a reconciliation of the Company s resulting income tax from the statutory federal income tax (in thousands of dollars):

	2005	2004	2003
Federal statutory income tax	$ 18,661	$ 18,137	$ 8,461
State and local income taxes	1,095	754	845

Effect of foreign operations	(688)	235	964
Effect of domestic subsidiary not consolidated for tax purposes		704	
Utilization of capital loss carryforward			(2,571)
Adjustment to prior year s accruals	(1,207)	(1,551)	(2,722)
Other	552	(448)	(282)
Resulting income tax	$ 18,413	$ 17,831	$ 4,695

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Items that gave rise to significant portions of the deferred tax accounts at April 30, 2005, May 1, 2004 and May 3, 2003 are as follows (in thousands of dollars):

	April 30, 2005		May 1, 2004	
	Deferred Tax Assets	**Deferred Tax Liabilities**	**Deferred Tax Assets**	**Deferred Tax Liabilities**
Allowances	$ 3,678	$ 8,147	$ 5,851	$ 7,425
Carryover losses	6,664		8,933	
Employee benefits current	4,039	67	6,414	3,473
Employee benefits noncurrent	4,995		3,211	
Property and equipment	822	9,600	823	4,839
Inventory		304	518	718
Tax credit carryforwards	2,966		4,091	
Subsidiary investments	2,953		2,953	
Other	596	577	271	683
	26,713	18,695	33,065	17,138
Valuation allowance	(2,953)		(2,953)	
Net	$ 23,760	$ 18,695	$ 30,112	$ 17,138

The Company has foreign net operating losses of $22,200,000. The foreign net operating losses do not expire and can be carried forward indefinitely. The Company has recognized a valuation allowance against a deferred tax asset for a book tax basis difference because it is more likely than not that the Company will not generate sufficient income of the appropriate character to realize the deferred tax asset.

The Company has foreign tax credit carryforwards of approximately $2,966,000, which will expire in 2011 through 2012.

Total income taxes paid in fiscal years 2005, 2004 and 2003 were approximately $14,600,000, $7,100,000 and $6,093,000, respectively.

As of April 30, 2005, the Company has not provided for withholding or United States federal income taxes on approximately $26,700,000 of accumulated undistributed earnings of its foreign subsidiaries as they are considered by management to be permanently reinvested. If these undistributed earnings were not considered to be permanently reinvested, no additional tax would be incurred due to the utilization of foreign tax credits, which would be generated by repatriation of these accumulated earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

12. Quarterly Financial Summary (unaudited)

(in thousands of dollars except per share data)

Fiscal Year 2005		For the Three Months Ended July 31, 2004	October 30, 2004	January 31, 2005	April 30, 2005
Revenues		$ 232,059	$ 295,340	$ 459,270	$ 273,916
Gross profit		43,190	59,572	87,237	54,252
Income from continuing operations before income taxes		1,185	13,175	32,612	6,324
Income from continuing operations		925	8,636	20,766	4,556
Loss from discontinued operations			(483)		(204)
Net income		925	8,153	20,766	4,352
Income (loss) per share:					
Continuing operations	basic	0.04	0.38	0.94	0.21
Continuing operations	diluted	0.04	0.38	0.94	0.21
Discontinued operations	basic		(0.02)		(0.01)
Discontinued operations	diluted		(0.02)		(0.01)
Net income	basic	0.04	0.36	0.94	0.20
Net income	diluted	0.04	0.36	0.94	0.20

Fiscal Year 2004		For the Three Months Ended August 2, 2003	November 1, 2003	January 31, 2004	May 1, 2004
Revenues		$ 205,293	$ 269,900	$ 443,902	$ 297,216
Gross profit		44,208	55,352	86,853	64,734
Income from continuing operations before income taxes and minority interest		1,592	11,629	30,440	8,158(a)
Income from continuing operations		391	8,239	19,296	6,062
Income (loss) from discontinued operations		947	1,651		(749)
Net income		1,338	9,890	19,296	5,313
Income (loss) per share:					
Continuing operations	basic	0.01	0.33	0.79	0.25
Continuing operations	diluted	0.01	0.33	0.79	0.25
Discontinued operations	basic	0.04	0.07		(0.03)
Discontinued operations	diluted	0.04	0.07		(0.03)
Net income	basic	0.05	0.40	0.79	0.22
Net income	diluted	0.05	0.40	0.79	0.22

(a) As a result of a periodic physical inventory, the Company recorded an adjustment in the fourth quarter of fiscal 2004 in the amount of $4.2 million, some of which relates to prior quarters of fiscal 2004.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

An evaluation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Act)) as of April 30, 2005 was carried out under the supervision and with the participation of the Company s Chief Executive Officer, Chief Financial Officer and several other members of the Company s senior management. The Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures, as currently in effect, are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company s management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner as appropriate to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

The Company intends to continually review and evaluate the design and effectiveness of its disclosure controls and procedures and to improve its controls and procedures over time and to correct any deficiencies that it may discover in the future. The Company s goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company s business. While the Company believes the present design of its disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Act, as amended. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an assessment of the effectiveness of its internal control over financial reporting as of April 30, 2005. The assessment was based on criteria established in the framework *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of April 30, 2005. An attestation report on management s assessment of the effectiveness of the Company s internal control over financial reporting as of April 30, 2005 has been issued by PricewaterhouseCoopers LLP, an independent registered public accounting firm, which is included herein in Item 8.

There have been no changes in internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the fourth fiscal quarter ended April 30, 2005, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item 10, with the exception of the following, is contained in the Handleman Company definitive Proxy Statement for its 2005 Annual Meeting of Shareholders, to be filed on or before August 26, 2005, and such information is incorporated herein by reference. All officers serve at the discretion of the Board of Directors.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name and Age			**Office and Year First Elected or Appointed**
Stephen Strome	60	(1)	Chairman of the Board (2001) and Chief Executive Officer (1991)
Thomas C. Braum, Jr.	50	(2)	Senior Vice President and Chief Financial Officer (2001)
Mark J. Albrecht	47	(3)	Senior Vice President Human Resources and Organizational Development (1999)
Ronnie W. Lund	42	(4)	Senior Vice President Product Management & Logistics and Business Processes (2005)
Scott A. Wilson	48	(5)	Group Vice President Handleman Entertainment Resources (2004)
Donald M. Genotti	47	(6)	Vice President and Corporate Controller (2001)

1. Stephen Strome was named Chairman of the Board on January 12, 2001. Mr. Strome has served as Chief Executive Officer since May 1991. Prior to his appointment as Chairman, Mr. Strome served as President since March 1990.

2. Thomas C. Braum, Jr. was named Senior Vice President and Chief Financial Officer on July 12, 2001. Previously Mr. Braum served as Corporate Controller since June 1988. In February 1992, Mr. Braum was elected Vice President.

3. Mark J. Albrecht has served as Senior Vice President Human Resources and Organizational Development since joining the Company on January 18, 1999.

4. Ronnie W. Lund was named Senior Vice President Product Management & Logistics and Business Processes on January 22, 2005. Previously, Mr. Lund served as Group Vice President and Senior Vice President Product Management & Logistics since August 2002 and Vice President Merchandise Planning since May 1999.

5. Scott A. Wilson was named Group Vice President Handleman Entertainment Resources on February 2, 2004. Previously, Mr. Wilson served as Vice President Marketing since October 2002.

6. Donald M. Genotti was named Vice President, Corporate Controller on July 14, 2001. Previously, Mr. Genotti served as Assistant Corporate Controller since March 1997.

CODE OF BUSINESS CONDUCT AND ETHICS

The Company has adopted a Code of Business Conduct and Ethics (Code) applicable to all directors, officers and employees of the Company including the Company s principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions. As noted earlier in Part I, Item 1, the Code, as well as any changes of or waivers to the Code, are available on the Company s website, www.handleman.com, and is intended to satisfy the Company s disclosure requirement under Item 5.05 of Form 8-K regarding amendments to, or waivers from, a provision of the Company s Code.

AUDIT COMMITTEE FINANCIAL EXPERT

The Company s Board of Directors has determined that Eugene A. Miller, Director, is the Company s Audit Committee Financial Expert, as defined under the rules promulgated by the Securities and Exchange Commission in furtherance of Section 407 of the Sarbanes-Oxley Act of 2002. Mr. Miller is independent of Company s management as defined in the New York Stock Exchange listing standards. Other information regarding the Audit Committee is contained in the Handleman Company definitive Proxy Statement for its 2005 Annual Meeting of Shareholders, to be filed on or before August 26, 2005, and such information is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

Information required by this item is contained in the Handleman Company definitive Proxy Statement for its 2005 Annual Meeting of Shareholders, to be filed on or before August 26, 2005, and such information is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table provides information as of April 30, 2005, with respect to compensation plans (including individual compensation arrangements) under which equity securities of Handleman Company are authorized for issuance, aggregated as follows:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in COLUMN A)**
Plan category	**COLUMN A**	**COLUMN B**	**COLUMN C**
Equity compensation plans approved by security holders	1,308,236[(1)]	$17.55[(1)]	1,668,796
Equity compensation plans not approved by security holders	Not Applicable	Not Applicable	Not Applicable
Total	1,308,236	$17.55	1,668,796

(1) Column A includes rights to 237,000, 214,200 and 156,200 performance shares granted, net of forfeitures, in fiscal years 2005, 2004 and 2003, respectively, of Handleman Company common stock, which would be distributed to the participants if certain fixed performance criteria are satisfied by April 28, 2007, April 29, 2006 and April 30, 2005, respectively. The performance shares were excluded in determining the weighted average exercise price in Column B.

Other information required by this item is contained in the Handleman Company definitive Proxy Statement for its 2005 Annual Meeting of Shareholders, to be filed on or before August 26, 2005, and such information is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is contained in the Handleman Company definitive Proxy Statement for its 2005 Annual Meeting of Shareholders, to be filed on or before August 26, 2005, and such information is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item is contained in the Handleman Company definitive Proxy Statement for its 2005 Annual Meeting of Shareholders, to be filed on or before August 26, 2005, and such information is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. The following financial statements and supplementary data are filed as a part of this report under Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets As of April 30, 2005 and May 1, 2004

Consolidated Statements of Income For the Years Ended April 30, 2005, May 1, 2004 and May 3, 2003

Consolidated Statements of Shareholders Equity For the Years Ended April 30, 2005, May 1, 2004 and May 3, 2003

Consolidated Statements of Cash Flows For the Years Ended April 30, 2005, May 1, 2004 and May 3, 2003

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

II. Valuation and Qualifying Accounts and Reserves
All other schedules for Handleman Company have been omitted since the required information is not present, or not present in an amount sufficient to require submission of the schedule, or because the information required is included in the financial statements or the notes thereto.

3. Exhibits as required by Item 601 of Regulation S-K.

(a) The following documents are filed as part of this Annual Report on the Form 10-K.

Exhibit Number	EXHIBIT	
3(a)	Handleman Company s Restated Articles of Incorporation dated June 30, 1989 (Exhibit A to Form 10-K for the fiscal year ended May 1, 1993)	*
3(b)	Handleman Company Bylaws adopted March 7, 1990, as amended through January 12, 2001 (Exhibit A to Form 10-K for the fiscal year ended April 28, 2001).	*
10(a)	1992 Performance Incentive Plan (Form S-8 dated March 5, 1993, File No. 33-59100).	*
10(b)	1998 Stock Option and Incentive Plan (Form S-8 dated December 21, 1998, File No. 333-69389).	*
10(c)	2001 Employee Stock Purchase Plan (Form S-8 dated November 1, 2001, File No. 333-72622).	*
10(d)	2001 Stock Option and Incentive Plan (Form S-8 dated November 1, 2001, File No. 333-72624).	*
10(e)	Amendment to Handleman Company 2001 Stock Option and Incentive Plan (Exhibit A to Form 10-K for the fiscal year ended May 1, 2004).	*
10(f)	Amendment to Handleman Company 1998 Stock Option and Incentive Plan (Exhibit B to Form 10-K for the fiscal year ended May 1, 2004).	*
10(g)	Amendment to Handleman Company 2001 Stock Option and Incentive Plan (Exhibit 10.1 to Form 10-Q for the quarter ended January 31, 2004).	*
10(h)	Amendment to Handleman Company 1998 and 2001 Stock Option and Incentive Plan (Exhibit 10.3 to Form 10-Q for the quarter ended October 30, 2004).	*
10(i)	2004 Stock Plan (Form S-8 dated November 15, 2004, File No. 333-120485).	*
10(j)	Handleman Company Fiscal Year 2005 Annual Management Incentive Plan (Form 8-K dated June 14, 2005).	*
10(k)	Fiscal Year 2005 Performance Share Awards Plan (Form 8-K dated June 14, 2005).	*
10(l)	Handleman Company s Fiscal Year 2006 Annual Management Incentive Plan (Form 8-K dated June 14, 2005).	*
10(m)	Fiscal Year 2006 Performance Awards Plan (Form 8-K dated June 14, 2005).	*
10(n)	Form of the Handleman Company Annual Management Incentive Plan Participant s Summary.	**

Exhibit Number	EXHIBIT	
10(o)	Form of Performance Share Grant Agreement (Fiscal 2003).	**
10(p)	Form of Performance Share Grant Agreement (Fiscal 2005).	**
10(q)	Performance Share and Performance Unit Grant Agreement (Fiscal 2006).	**
10(r)	Handleman Company Restricted Stock Agreement Long Term Performance Incentive Grant.	**
10(s)	Summary of Directors Compensation.	**
10(t)	Summary of Salary Continuation Death Benefits for Officers and Directors.	**
10(u)	Handleman Company Supplemental Executive Retirement Plan (United States).	**
10(v)	First Amendment to the Handleman Company Supplemental Executive Retirement Plan (United States).	**
10(w)	Second Amendment to the Handleman Company Supplemental Executive Retirement Plan (United States).	**
10(x)	Third Amendment to the Handleman Company Supplemental Executive Retirement Plan (United States).	**
10(y)	Fourth Amendment to the Handleman Company Supplemental Executive Retirement Plan (United States).	**
10(z)	Advisory Agreement with David Handleman (Exhibit to Form 10-K for the fiscal year ended April 28, 1990).	*
10(aa)	Change of Control Agreement dated March 17, 1997 between Handleman Company and a certain executive officer (Exhibit A to Form 10-K for the fiscal year ended May 3, 1997).	*
10(bb)	Change of Control Agreement dated August 8, 2003 between Handleman Company and a certain executive officer (Exhibit D to Form 10-K for the fiscal year ended May 1, 2004).	*
10(cc)	Agreement for Release and Waiver of Claims between Handleman Company and a certain executive officer.	**
10(dd)	Form of Change of Control/Severance Agreement.	**
10(ee)	Credit Agreement among Handleman Company, the Banks named therein and Standard Federal Bank, as Agent dated August 8, 2001 (Exhibit A to Form 10-K for the fiscal year ended April 27, 2002).	*
10(ff)	The First Amendment to Credit Agreement among Handleman Company, the Banks named therein and Standard Federal Bank, as Agent dated October 17, 2002 (Exhibit A to Form 10-K for the fiscal year ended May 2, 2003).	*

Exhibit Number	EXHIBIT	
10(gg)	The Second Amendment to Credit Agreement among Handleman Company, the Banks named therein and Standard Federal Bank, as Agent dated September 18, 2003 (Exhibit C to Form 10-K for the fiscal year ended May 1, 2004).	*
10(hh)	The Third Amendment to Credit Agreement among Handleman Company, the Banks named therein and Standard Federal Bank, as Agent dated July 30, 2004 (Exhibit 10.1 to Form 10-Q for the quarter ended October 20, 2004).	*
10(ii)	The Fourth Amendment to Credit Agreement among Handleman Company, the Banks named therein and Standard Federal Bank, as Agent dated January 10, 2005 (Exhibit 10.1 to Form 10-Q for the quarter ended January 31, 2005).	*
10(jj)	Uncommitted Facility letter between Handleman UK Limited and certain bank dated November 24, 2003.	**
21	Subsidiaries of Registrant.	**
23	Consent of Independent Registered Public Accounting Firm.	**
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	**
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	**

* Indicates documents are incorporated herein by reference.

** Indicates documents are filed as part of this Annual Report on Form 10-K.

(b) The following document is furnished as part of this Annual Report on Form 10-K.

Exhibit Number	EXHIBIT
32	Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished to the Securities Exchange Commission.
Note:	Exhibits attached to this report will be furnished to requesting security holders upon payment of a reasonable fee to reimburse the Registrant for expenses incurred by Registrant in furnishing such Exhibits.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

YEARS ENDED MAY 1, 2004 AND APRIL 30, 2005

(in thousands of dollars)

COLUMN A	COLUMN B	COLUMN C Additions:		COLUMN D	COLUMN E
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Sales Returns	Deductions: Adjustments of, or Charge to, Reserve	Balance at End of Period
Year ended May 1, 2004:					
Accounts receivable, allowance for gross profit impact of estimated future returns	$ 12,759	$ (214,222)	$ 267,766	$ 57,795	$ 8,508
Accounts receivable, allowance for receivables from bankrupt customers	$ 6,720	$ 193	$ 0	$ 6,913	$ 0
Accounts receivable, allowance for doubtful accounts	$ 4,790	$ 10	$ 0	$ 2,702	$ 2,098
Inventory reserve	$ 10,981	$ 7,098	$ 0	$ 13,443	$ 4,636
Year ended April 30, 2005:					
Accounts receivable, allowance for gross profit impact of estimated future returns	$ 8,508	$ (207,495)	$ 257,249	$ 49,906	$ 8,356
Accounts receivable, allowance for doubtful accounts	$ 2,098	$ 2,010	$ 0	$ 1,655	$ 2,453
Inventory reserve	$ 4,636	$ 1,859	$ 0	$ 2,492	$ 4,003

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: June 30, 2005

BY: /s/ Stephen Strome
Stephen Strome, Chairman of the Board

and Chief Executive Officer

Pursuant to the requirements of the Securities and exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Thomas C. Braum, Jr.
Thomas C. Braum, Jr., Senior Vice President
and Chief Financial Officer)
(Principal Financial Officer)

June 30, 2005
DATE

/s/ Donald M. Genotti
Donald M. Genotti
Vice President, Corporate Controller
(Principal Accounting Officer)

June 30, 2005
DATE

/s/ Elizabeth Chappell
Elizabeth Chappell, Director

June 30, 2005
DATE

/s/ Eugene A. Miller
Eugene A. Miller, Director

June 30, 2005
DATE

/s/ James B. Nicholson
James B. Nicholson, Director

June 30, 2005
DATE

/s/ Sandra E. Peterson
Sandra E. Peterson, Director

June 30, 2005
DATE

/s/ Irvin D. Reid
Irvin D. Reid, Director

June 30, 2005
DATE

/s/ Lloyd E. Reuss
Lloyd E. Reuss, Director

June 30, 2005
DATE

/s/ Ralph J. Szygenda
Ralph J. Szygenda, Director

June 30, 2005
DATE

/s/ Thomas S. Wilson
Thomas S. Wilson, Director

June 30, 2005
DATE