

2003



We are entertainment

TRANS WORLD ENTERTAINMENT 2003 ANNUAL REPORT

We are entertainment





Someone's *favorite* movie

The must-have video game

That really *cool* song you heard
on the radio

The *perfect* gift

The soundtrack for a road trip

A childhood *memory*

A home theatre escape

And *more*

In malls, on highways, at home,
everywhere

We are the *entertainment* store of choice
for millions of consumers

Trans World Entertainment



Letter from the Chairman/CEO
Robert J. Higgins

An Exciting Year, A Solid Year, A Transition Year

2003 was an exciting year for Trans World Entertainment. We continued to deliver and expand our presence as a “total entertainment destination.” We achieved solid gains in sales and earnings. We seized new opportunities, including the acquisition of the Wherehouse Entertainment chain.

In the midst of significant industry transition, our strategy is sound, our vision is focused. With solid fundamentals, a strong store portfolio and more than 30 years of experience and knowledge, we will continue to grow entertainment media sales – because, for millions of customers across the nation, **we are entertainment.**

Sales Up, Earnings Up, Q4 Strong

In 2003, total sales climbed 4% to over \$1.3 billion. Net income was \$23.1 million, including a \$4.3 million extraordinary gain arising from the newly-acquired stores.

The year’s sales performance was fueled by a strong fourth quarter. While we operated a greater number of stores versus the same period last year (881 stores at the end of 2003 versus 855 at the end of 2002), total sales increased 12% and comparable store sales increased a solid 4%.

Our performance was further driven by growth in DVD and an improving trend in music sales.

Underscoring this performance, our balance sheet remains solid. We have no long-term debt. Our Company is strong.

Music Improving, DVD Outstanding, Games An Opportunity

Taking a bigger-picture view of the categories that impact our business, there is further positive news.

The music industry is improving. The pace of decline is slowing. While industry-wide music sales were down 7.6% for the first half of the year, they climbed 5.9% in the fourth quarter. Progress has been made in combating piracy. A recent study by the Recording Industry Artists’ Association indicates that illegal download activity was reduced by 50% in the period between spring and fall of 2003.

Home video sales, fueled by DVD, are still growing strong. DVD sales grew 33% in 2003, with sales reaching \$11.6 billion, an all-time high. The fourth quarter for this category was tremendous – DVD unit sales were up 35% in Q4.

The video game industry was down from the previous year. However, it remains a key category in the retail entertainment industry, and will remain a significant piece of our business.

The growth and stabilization in these key categories bodes well for Trans World. As a leader in specialty entertainment retailing, we will have our share of this success.

New Acquisitions, Creative Approaches, Intelligent Business

Consolidation was again the trend in the specialty entertainment industry – with key competitors being sold, acquired and reorganized. With our resources and leadership position, Trans World once again took advantage.

In 2003, we further strengthened our store portfolio with the acquisition of the Wherehouse Entertainment chain, adding approximately 100 units to our freestanding store portfolio. This



acquisition is a good fit for Trans World, both strategically and operationally, and offers several advantages – including expanding our presence on the West Coast, particularly the Los Angeles market. The timing was likewise advantageous, as sales in these stores contributed to our successful fourth quarter.

Beyond acquisitions, we created a range of marketing opportunities, increasing awareness of our brands and expanding our reach beyond store walls. To leverage our leadership position we formed alliances and sponsorships by partnering with premier entertainment providers such as Clear Channel Communications and MTV Networks.

In 2003, we continued to emphasize value, customer service and the in-store experience – to heighten consumer loyalty and increase share of the customer’s wallet. We also maintained our emphasis on good, intelligent business. We achieved a number of operational efficiencies and reduced our overhead.

Leveraging, Launching, Continuing

As we look forward to 2004, our goals are to build on our strengths, to amplify our successes, and to seek new opportunities.

We will continue to leverage the strength of our mall-based FYE (For Your Entertainment) stores and our freestanding brands – strengthening our position as the premier entertainment destination.

At the same time, we will focus on the recently-acquired stores to achieve Trans World standards of efficiency and performance.

Our stores are our customer’s primary touchpoint. In 2004, we will launch the next generation of our exclusive LVS (Listening and Viewing Stations)

system – further expanding the functionality of this interactive shopping and sampling tool, already proven to increase sales per customer. The next generation of LVS will offer new ways to encourage trial and exploration, communicate with customers and drive sales.

Of course, technology is only part of the in-store experience. We will also maintain our “best-in-class” customer service along with outstanding breadth and depth of product, two key points of differentiation.

To focus on our core business and maintain our emphasis on cost control, we will – beginning in August 2004 – outsource the operations of fye.com and our soon-to-be launched site at coconuts.com.

**WE ARE
more than 350,000
music, movie and
game titles,
in store and online.**

We will continue to pursue proprietary opportunities that help differentiate our brands. These include high-profile sponsorships and cross-promotions, as well as our LocalEyez program which promotes local and regional artists.

With a constant eye, we will work to evaluate and refine our national store network – seeking prudent additions and making strategic consolidations, maximizing performance and shareholder value.

Focused, Determined, Ready

I would like to thank our shareholders, Board of Directors, executive team and all of our associates – for helping us achieve a positive year, an exciting solid year, and for positioning us for further success.

We are confident. We are energized.

We are entertainment.



Portfolio Expanding

We are growing

In 2003, Trans World Entertainment acquired the Warehouse Entertainment store chain – solidifying our West Coast presence, further improving the industry’s strongest portfolio of store brands.

The strength of our store network has long been a hallmark of Trans World, and one of our key strategic advantages. We have the entertainment products people want, in the places they want to be.

That tradition continues.

We are innovating

We continued to utilize creative, innovative methods of reaching our customers, marketing our brands and promoting our products.

This includes the LVS – our revolutionary Listening and Viewing Stations, which enable customers to sample CDs, DVDs and more from our massive catalog in Trans World stores nationwide. In 2004, we’ll be adding new functionality, from increasing cross-sell content to enabling customers to order out-of-stock items for home delivery...all helping to enhance the experience and drive sales.

Our emphasis on innovation also includes unique, strategic marketing programs and promotions – alliances with Clear Channel Communications, MTV Networks and other top names in entertainment. This is something only an industry leader can do, something we will continue to leverage.

These are just a few samples of how we are differentiating ourselves – forming stronger relationships with entertainment consumers.

WE ARE
more than 7,000 store
associates – expert,
customer-focused guides to
everything entertainment.



The Total Entertainment Destination



We are a total entertainment destination, spanning genres, formats and media

Trans World's brands are the preferred choice of a broad mix of consumers: teens, Xers, boomers and far beyond.

In living this vision, we continue to diversify our product mix – an important way to distinguish our stores from our competitors.

We are also committed to discovering and promoting local music acts with regional appeal, through our LocalEyez program. Once again, this is a unique property – demonstrating our commitment to the communities we call home. It is an opportunity to connect with customers, with musicians, with entertainment... and to increase sales.

As we look back at 2003, our success was fueled by the tremendous recent growth of the DVD category, but that is only part of the story. We are also CDs, video games, accessories... and emerging media to come.

For more than three decades, Trans World has been synonymous with retail entertainment. It's what we do. It's who we are.

WE ARE
more than 1 million
customers contacting
our brand, and our
products, each day.

