



ENTERTAINMENT EVERYWHERE



TRANS WORLD ENTERTAINMENT ANNUAL REPORT 2004



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THE MISSION IS CLEAR.

To connect consumers with the music, movies and games they love. To be their total entertainment source. And to do that better than anyone else.

THE METHOD IS FOCUSED.

To reach customers on their terms...efficiently and intelligently. Where they live, where they shop. Anytime. Anywhere. Everywhere.

The company is

TRANS WORLD ENTERTAINMENT.

ENTERTAINMENT EVERYWHERE



Everywhere you look, our strategic plan is working. Our approach is sound. Our efforts are producing results.

I am pleased to report that 2004 was a solid year for Trans World Entertainment. We are, without question, a leader in specialty entertainment retail. We offer fundamental strength – and a long-term vision – as we continue to drive our Company.

Solid Everywhere

From a financial standpoint, 2004 was solid in some areas, and very strong in others. Our overall sales ended slightly below \$1.4 billion, up 3% from 2003. Comparable store sales increased 1%, and our net income totaled \$41.8 million for the year, which includes the extraordinary gain from our acquisition of the Wherehouse and CD World chains in 2003.

Among our key sales segments, growth in DVD continued to be strong, contributing 26% to our overall sales. Games performed very well for us as well, with total sales increases topping 10%, and music was solid with total CD sales increasing 3%.

We also achieved solid growth in our used product business. With the addition of the Wherehouse chain in 2003 and the acquisition of the remaining interest in Second Spin in 2004, we have solidified this category as a competitive advantage in all of our stores by furthering our value statement to our customers.

A 1% comparable store sales increase for the fourth quarter helped deliver solid numbers in a holiday season that proved challenging for many retailers.

Selling, general and administrative expenses for 2004 were 33% of sales, a 150 basis point improvement over 2003. Our balance sheet remains solid, and we are well-positioned to seek new strategic opportunities as they arise.

Growth Everywhere

While we are pleased with Trans World's performance in 2004, we are also pleased to report growth and improvement across the entire specialty entertainment industry.

The DVD industry set a record again in 2004, topping \$15.1 billion in sales. Good news emerged from the music industry last year, as CD sales rose for the first time in four years – even as digital music purchases climbed. (It's important to note that, as of 2004, CDs still comprise 98% of all U.S. album sales – a total of 140 million digital tracks were legally downloaded last year, equivalent to 14 million albums.) Games software was up 8% for the year – as new hardware and strong releases continue to drive consumer demand, proving the expanding appeal of this segment.

The specialty entertainment industry continues to combat illegal file sharing and piracy. For instance, in 2005,

a variety of major new album releases will be issued in DualDisc format – essentially offering a music CD on one side and a DVD of artist videos on the other side. This innovative concept provides added value to customers, and offers yet another reason to avoid illegal downloading.

This growth and stabilization in our industry segments are positive signs for Trans World.

Achievements Everywhere

Beyond the solid numbers, we accomplished a number of initiatives in 2004 – most of which were driven by our continuing emphasis on research and development. We are constantly expanding and improving the ways consumers can explore and connect with Trans World... and the entertainment they love.

We continued to enhance and expand the functionality of our in-store LVS (Listening-Viewing Station) system. When we first launched the system in 2002, it allowed customers to preview tracks from our entire music catalog – setting a new industry standard for product sampling technology at the point of sale. A year later, we added the ability to watch trailers from our vast catalog of movie and game titles. In 2004, this innovative system became even better. Our new LVS units provide consumer-friendly touchscreen and expanded search options, and will soon provide digital download capability – enabling shoppers to better explore our vast universe of entertainment products, while maximizing the sales potential of this customer interface.

We are currently testing custom CD stations in select stores. Customers can simply select music tracks from an expansive database of songs, and burn their own mixes – meeting increasing consumer demand for flexibility and personalization.

We unveiled the FYE Download Zone, a new digital music service featuring one of the industry's first-ever portable subscription options. Offering deep catalog, flexible options and a seamless discovery and shopping experience, this service positions us to capture market share in the growing digital music segment. In 2004, we also launched coconuts.com, capitalizing on the brand recognition of our free-standing store brand, while building a more synergistic experience.

We opened two FYE Movies stores... a new brand extension devoted to DVD and related home video products, which we are carefully testing and refining. We also opened a West Coast facility that provides Internet fulfillment, used products for our entire chain and full service to 125 stores.

We leveraged our position as a national leader to secure strategic marketing alliances and media opportunities, from high-profile promotions with HBO® and PacSun to national sponsorships such as the Ozzfest concert tour.

Enhancements and accomplishments, improvements and innovations...we achieved all this while continuing our emphasis on good, intelligent business.

Initiatives Everywhere

Of course, in our industry, there is no standing still. As we look ahead to 2005 and beyond, a number of key initiatives are on the agenda.

We will build on the strength of our mall-based FYE stores and continue to build our freestanding brands – enhancing our position as the preferred entertainment destination. As we introduced the FYE Movies

store concept in 2004, we will continue testing FYE Games stores in 2005 – a store and an experience dedicated to the expanding game market.

Across all of our retail touchpoints, we will continue to capitalize on the growth of DVD and games – offering the full spectrum of specialty entertainment.

As customer interaction and convenience are key differentiators for our store experience, we will roll out further enhancements to our LVS system – expanding the functionality of this interactive shopping tool.

We will continue to develop strategic industry relationships, we will strengthen our national store network and we will further maintain our “best-in-class” customer service.

Anticipating and adapting, evolving and refining...we will fulfill our commitment to being the total entertainment destination for our customers, and deliver on our commitment to enhancing value for our shareholders.

Energy Everywhere

I would like to thank our shareholders, board of directors, our many associates and everyone on our team for your support and dedication – your ideas and energy.

Our plan is working. We are delivering entertainment as never before, answering the needs of our consumers. In stores, online, wherever people shop for and enjoy our products, we are entertainment...everywhere.



RESEARCH & DEVELOPMENT IS A KEY TO OUR CONTINUING SUCCESS, AND OUR FUTURE MOMENTUM

How can we help customers better explore and make purchases from our expansive catalog of music, movies and games? How can we leverage synergies between e-commerce and our coast-to-coast store network? How can we position our Company for growth in the burgeoning digital music segment?

These and a host of other questions are driving R&D – now at Trans World.



LVS (Listening-Viewing Station)



PREVIEW
MUSIC,
MOVIES,
GAMES

LARGER
8 X 10
SCREEN

DOWNLOAD
TRACKS/
ALBUMS
TO PLAYER

What's Next at the LVS?

Over the past three years, R&D and customer behavior analyses have spurred the development and refinement of our proprietary in-store LVS system. Launched nationwide in 2002, the LVS drives customers to sample our vast catalog of CDs, watch movie or game trailers, and learn more about the artists, their other works, and how and where to buy them. Each LVS is a tremendous sampling and cross-selling opportunity, as well as a medium for generating revenue – and it will soon do even more.

In the future, customers will be able to walk up to an LVS unit, find and buy songs or albums, and download the tracks to take on the go with qualified portable devices...burn them to a CD in-store...or have them delivered digitally (or on a CD) to their home. All easily and instantly.

FYE Download Zone



SUBSCRIPTION
TO ENTIRE
CATALOG

PAY
PER
SONG

Advancing Digital Music

With the recent launch of the FYE Download Zone, we are offering a new, exciting portal for digital music.

Providing a pay-per-song option like other digital music services, the FYE Download Zone also offers a subscription option – giving subscribers access to more than one million songs for only \$14.95 per month. Flexible and portable, our service is one of the first of its kind in the industry. It will give us a technological edge in this growing sales segment.

These are just two examples of our commitment to understanding, anticipating and meeting the changing needs of our customers. This is the reason Trans World remains an industry leader.





SPECIALTY ENTERTAINMENT RETAIL IS STRONG... AND SO ARE WE

2004 was a solid year for specialty entertainment retail in general, and specifically for Trans World Entertainment. We are a leader in this industry, the true total entertainment destination – the music, movies and games that people love. People of all ages, all across the country.

\$15
billion



DVD INDUSTRY
SALES 2004

\$360
million

TRANS WORLD
DVD SALES 2004

\$10
billion



GAMES INDUSTRY
SALES 2004

\$89
million

TRANS WORLD
GAMES SALES 2004

\$12
billion



MUSIC INDUSTRY
SALES 2004

\$751
million

TRANS WORLD
MUSIC SALES 2004