

Trans World Entertainment
2001 Annual Report



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It started with a promise: to better understand and satisfy entertainment consumers of the 21st century – delivering a more personalized, inspiring experience ... forming a long-term, mutually beneficial relationship. This is the promise of FYE.

In 2001, FYE became real: a national store network, exclusive technologies, unprecedented alliances, and more. All laying the foundation for exciting new programs and possibilities, while adding to the strength of our powerful freestanding store portfolio. This is a true revolution in entertainment retail, continuing a 30-year tradition of innovation and success – from Trans World Entertainment.

Never Stop Playing™

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These three words are the new tagline for our national chain FYE, more than 650 mall-based stores and a Web site – now unified as one powerful brand. They offer a call-to-action to our customers, and the promise of a better, more inspiring experience.

However, the spirit of this phrase extends beyond FYE – applying to all of Trans World Entertainment. It communicates our understanding of the entertainment industry and our enthusiasm for the products we sell. It states Trans World's never-ending goal of improving the way we do business, and increasing value for our shareholders.

"Never Stop Playing" is also a fitting theme for one of the most exciting years in our Company's history. Encompassing a comprehensive brand launch, powerful new technologies, a strategic marketing and technology alliance with Microsoft, strong growth in key business areas and significant improvements to operating efficiencies, 2001 marked a critical evolution... redefining Trans World, all of our stores and entertainment retail in the process.



Robert J. Higgins
Chairman and
Chief Executive Officer

FYE: Now Playing Everywhere

Certainly the highlight of 2001 was the successful launch of our new FYE brand, a cross-channel concept that is truly "for your entertainment."

The unification of all of our mall-based stores is complete – showcasing a signature new look, enhanced store design and visual merchandising. Our FYE store network is now connected with a high speed broadband infrastructure, enabling enhanced communications and data-sharing, along with potential future applications such as digital product delivery. Our retail Web site was converted to fye.com, and is developing strong traffic and loyal usage.

We tested and refined breakthrough multimedia technologies in FYE pilot stores – offering exciting new ways for people to research, sample and purchase products. These include the FYE listening-viewing station (LVS) enabling shoppers to instantly sample CDs and DVDs, and the FYE Kiosk, a rich database resource allowing consumers to search, sample and special order from FYE's entire product catalog of over 300,000 titles. As evidenced by their success in pilot stores, these technologies will help attract new customers, boost conversion rates and increase sales among current customers. They will be rolled out nationwide by the end of the third quarter in 2002 – perfectly timed to drive sales during the pivotal holiday season.

We also began building awareness for FYE with high-profile marketing programs, including national radio and television campaigns. It all adds up to an exciting new brand, and a strong, integrated foundation for future programs.

FYE, now our flagship brand, joins Strawberries, Coconuts, Spec's, Saturday Matinee and Planet Music to form one of the industry's strongest portfolios.

Microsoft Alliance

Leveraging the strength of our now-unified national brand, we established a strategic alliance with Microsoft in 2001. This included a technology alliance, integrating and promoting the Windows XP operating system and Windows Media with FYE's in-store and online technologies. This alliance is also a marketing partnership offering FYE tremendous exposure as the premier retail entertainment link at several high-profile Microsoft properties, including MSN Shopping and the new MSN Messenger.

Focus On Fundamentals

While launching a revolutionary brand concept, we also held true to a longtime Trans World hallmark – intelligent, efficient business. In the fourth quarter of this year, we lowered selling, general and administrative (SG&A) expenses from 21.0% of sales in 2000 to 17.9% of sales in 2001. Over the course of the year, we closed approximately 100 underperforming stores, focusing our resources for maximum return. Although our sales overall reflected the obstacles of the recession, 9/11 and a disappointing year for the entire music industry, we significantly grew our DVD and video games business, categories which are poised for further growth. After all of our accomplishments, Trans World's cash position and bottom line remain solid and strong.

Exciting Outlook

With brand foundation in place, the possibilities magnify – for 2002 and the years to come.

This year, we will unveil a customer relationship management (CRM) initiative including FYE Backstage Pass, our new customer loyalty program. We now have the database infrastructure and CRM tools in place to collect and strategically utilize customer data profiles. Our CRM effort will enable us to offer exclusive, customized information and exciting value to our customers, while helping us build a closer relationship and boost share of wallet. As with all of our brand initiatives, we will carefully test and refine this program, ensuring maximum customer satisfaction and return on investment.

Also in 2002, we will continue our ongoing associate training program, helping our thousands of employees to become informed, enthusiastic ambassadors of our brand. Supported by exciting in-store technologies such as the LVS and Kiosk, our associates will help us create a more interactive, inspiring, in-store experience – guiding customers to more of the entertainment they love.

Strength All Around

Trans World is positioned to lead in the new century – thanks to the dedication and forward vision of our directors, our executive management team and our associates across the country. With our energy and expertise, we will seize the opportunities before us and take our business to new heights.

Consider our many fundamental strengths: financial position, industry expertise, geographic dominance. Add the excitement of our new brand, new technologies, new alliances and new vision, coupled with the proven performance of our freestanding brands. Trans World has, for more than three decades, anticipated change, created growth, redefined ourselves and our industry to sustain success...we will never stop.





fye

fye

MOVIES MUSIC MOVIES

MUSIC MOVIES GAMES MORE

Brand Together

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In 2001, Trans World Entertainment unified more than 650 mall-based stores and our retail Web site as one brand: FYE.

Offering strategic and operational advantages, this unification enables us to leverage our national marketing presence and achieve numerous efficiencies. It also represents the cornerstone of the FYE concept: offering a consistent, cross-channel experience for our customers.

This year, more than 250 million customers will visit our national network of over 650 mall-based stores – giving us tremendous opportunities for marketing, relationship-building and cross-channel synergy with fye.com.

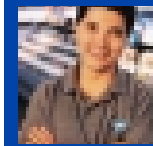




never stop playing™

music • movies • games • more

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Trans World has exclusive agreements in more than half of the malls in which we operate.

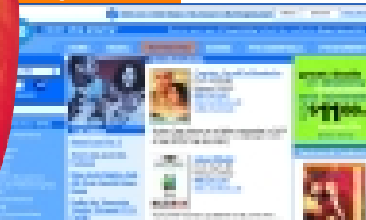


Never Stop Playing

FYE is more than a name and a logo. It is a distinct personality and a unique market positioning. It is an expression of freedom, helping people explore and enjoy entertainment in new and exciting ways. It is an unequalled commitment to our customers – demonstrating that we love our products as much as they do. All articulated in the tagline “Never Stop Playing.”



fye.com



Customers who purchase from a retailer's Web site spend 49% more annually in that retailer's stores.
shop.org Multi-channel Retail Report, 2001



Brand Together

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We created a powerful brand personality – positioning FYE as an exciting, inspiring entertainment experience.

The FYE Experience

In 2001, the FYE brand was rolled out via our primary contact points, our store network and fye.com, along with national marketing programs. Encompassing enhanced environmental design and visual merchandising, customer-centric technologies, the creation of brand imagery, original music scores and in-store commercials – the launch was integrated and comprehensive. In addition, through an associate training program, we helped educate and inspire our most important customer contact point:

thousands of employees nationwide. All working to create an entirely new retail experience for entertainment enthusiasts...driving shareholder value.

One Brand Everywhere

Now, in high traffic malls across the country...online...wherever and however people want to shop for entertainment... we are there. With one name, one face, one voice. FYE.



The FYE Kiosk is an interactive database workstation developed exclusively by Trans World. With a simple touch-screen, customers can search, sample and special order – tapping into our virtual inventory of 300,000 titles.



Innovative Technology

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This revolution goes deeper than the brand surface... delivering new methods of interaction and exploration.

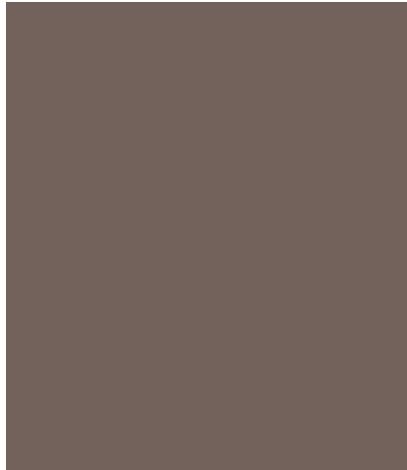
As part of a comprehensive initiative, we unveiled proprietary in-store technologies: the FYE LVS and the FYE Kiosk – enabling customers to find, try and buy entertainment as never before. We also built an advanced database infrastructure, enabling us to support a strategic, comprehensive customer relationship management (CRM) initiative.

The FYE LVS is a high-speed multimedia sampling station – the first of its kind. Leveraging our broadband infrastructure and our Microsoft alliance, the LVS allows customers to instantly sample virtually any CD or DVD in the store, and preview popular games. By the end of the third quarter of 2002, there will be 20 to 40 LVS units operating in every FYE store.





FYE Backstage Pass is our premier customer loyalty initiative, which will be introduced in 2002.



Ultimate Sampling: FYE LVS

Developed exclusively by Trans World and our global technology partners, the FYE LVS is truly an advanced shopping tool, enabling consumers to instantly play samples of CDs, DVDs and video games. Faster, easier and deeper in content than any other in-store sampling system, the LVS can play every track on every CD in the store...preview trailers from virtually any DVD... and play previews of top video games. Each FYE will be outfitted with 20 to 40 LVS units by the end of the third quarter of 2002 – encouraging exploration and driving sales.

Search, Sample & Special Order: FYE Kiosk

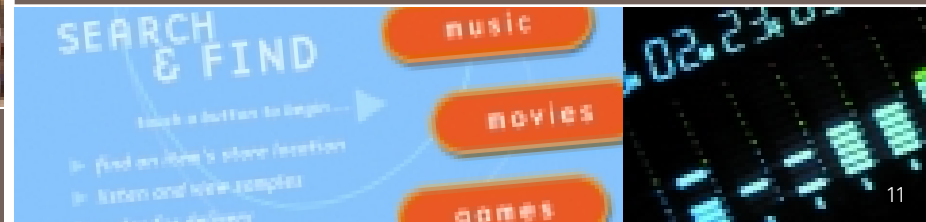
Another one-of-a-kind technology, the FYE Kiosk is an interactive database workstation for researching and sampling. Customers can search by artist, song title, actor and beyond – quickly finding and sampling the products they're looking for. In fact, if a particular title is not in-stock at that store, the customer can place a special order at the Kiosk...allowing the customer to purchase without a cashier...to have the product sent anywhere in the country... to access rare or hard-to-find titles with the touch of a button. Along with the LVS, the Kiosk was tested and refined in FYE pilot stores in the fourth quarter of 2001, and will be implemented nationally this year.





In-store and online, we are forging a stronger relationship between us, our customers and the entertainment they love.

Innovative Technology



We are launching proprietary technologies in store – changing the way customers shop for entertainment.

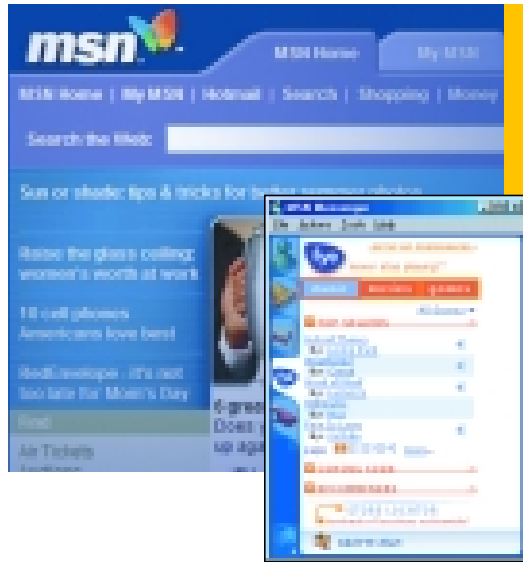
Broadband Backbone

We connected our entire store portfolio with a broadband backbone for faster data transmission. This enabled us to improve communications, while making a host of innovations possible – including preparing Trans World for potential digital distribution of product or other next generation formats.

Building Relationships

With advanced “backend” technologies already in place for the management of customer profiles and data mining, we will launch a CRM initiative in 2002.

This includes FYE Backstage Pass, an electronic customer loyalty program, where customers will receive exclusive access, offers and information at our stores and our Web site – and, in exchange, they will provide us with valuable data enabling us to customize their FYE experience. This CRM initiative will increase customer loyalty and share of wallet, while ensuring sustainable success. In addition, the knowledge we gain of customer preferences and trends will help us enhance our FYE stores, freestanding stores and everything we do.



FYE is the premier music and DVD partner on all MSN Web properties.

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Microsoft

As a testament to the strength of our industry position, and the national marketing leverage of our store network, we formed a strategic technology and marketing alliance with Microsoft in 2001.

Exclusive Exposure

This alliance includes valuable exposure for FYE through a variety of Microsoft properties and media channels. FYE is the premier online music and DVD retail partner on all MSN Web properties, including MSN Shopping and MSNBC.com. FYE is also currently the only entertainment retailer featured as a tab on MSN Messenger, one of the leading peer-to-peer networks, accessible to millions of Microsoft XP users. We have also received tremendous visibility through participation in Microsoft's 1^o marketing campaign featured in such national publications as the *Wall Street Journal* and *BusinessWeek*. In addition, we were among the major sponsors of the high-profile kick-off events for Microsoft XP in the fall of 2001.





Microsoft Alliance

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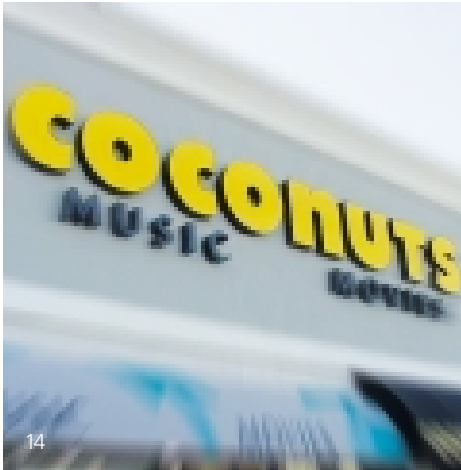
The FYE brand gained tremendous exposure and value – aligning with one of the best-known brands in the world.

Powered By Microsoft

On the technology side, FYE will benefit from Microsoft technologies in-store and online. Our in-store technologies, LVS and Kiosk, are integrated with Microsoft XP operating system, Windows media formats and technologies for consumer registration and personalization. fye.com likewise incorporates Microsoft technologies, optimizing the consumer experience.

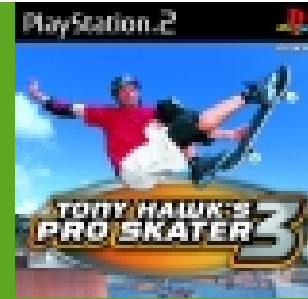
Advancing Relationships

Microsoft technologies also contributed to our database infrastructure, an integral technology component of the FYE Backstage Pass loyalty program and our overall CRM initiative. This includes advanced solutions for electronic security and personalization – enabling us to better serve our customers, and better leverage the value of customer data.

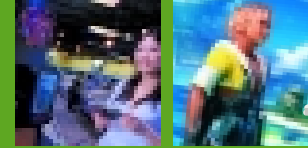


Coconuts is one of the well known brands in our roster of 216 freestanding stores.

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Game sales are expected to grow significantly in 2002. We will continue to grow our share of this exciting category.



We are driving our business forward – seizing the opportunities for growth, while building a foundation for a strong future.

Everything Entertainment

Trans World Entertainment is exactly that – an entertainment company. The FYE concept is derived from the promise “for your entertainment.” Coconuts, Strawberries and our other freestanding stores have remained successful for decades through numerous evolutions – vinyl, cassettes, videos and digital media. We are dedicated to meeting the demands of entertainment enthusiasts: the products they want, in the formats they demand. This means growing our DVD and video game businesses, seizing our share of hot categories. It means positioning music sales for greater growth. It means looking ahead to bring promising new entertainment formats to consumers. We will continue to actively seek and create growth, as we have always done.





DVD/VHS represented 24% of total Trans World sales in Q4 2001 – demonstrating that we are a preferred source of all things entertainment.

Future Focused

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We are expanding our market share in growth areas such as DVDs and games, while positioning ourselves to continue leading the industry.

Opportunity Ahead

Consider the future, near-term and far. With emerging technologies and media, entertainment retail will continue to grow. Ever-expanding methods of researching, purchasing and enjoying entertainment will drive trial and sales. There is opportunity ahead, and Trans World is ready.

In Position

Our fundamental strengths, our knowledgeable associates, national store network, solid financial position and industry expertise continue to be our most powerful assets. The FYE concept, and all that it entails, is forging a powerful connection with our customers – as we strive to become their primary source for all things entertainment. We are positioned for future growth and sustainable success.

This is only the beginning.

Financial Highlights

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	2001	2000	1999	1998	1997
<i>(in thousands, except per share and store data)</i>					
Sales	\$1,388,032	\$1,414,589	\$1,358,132	\$1,282,385	\$571,314
Change in total sales	(1.9)%	4.2%	5.9%	124.5%	18.6%
Change in comparable store sales	(2.7)%	0.2%	2.0%	3.7%	10.2%
Net income	\$ 16,791	\$ 40,150	\$ 61,393	\$ 61,010	\$ 20,574
Diluted earnings per share	\$ 0.39	\$ 0.83	\$ 1.15	\$ 1.14	\$ 0.66
Total assets	935,418	1,002,002	956,410	798,610	374,019
Shareholders' equity	448,066	448,822	494,173	432,376	124,522
Total stores	902	984	967	988	539

Selected Consolidated Financial Data

Trans World Entertainment Corporation and Subsidiaries

The following table sets forth selected consolidated financial data and other operating information of the Company and gives retroactive effect to the acquisition of Camelot for the periods subsequent to its “fresh-start reporting” on January 31, 1998, upon its reemergence from bankruptcy. The acquisition was accounted for using the pooling-of-interests method of accounting. The selected income statement and balance sheet data for the five fiscal years ended February 2, 2002 set forth below are derived from the audited consolidated financial statements of the Company. Each fiscal year of the Company consisted of 52 weeks, except the fiscal year ended February 3, 2001, which consisted of 53 weeks. All share and per share amounts have been adjusted for stock splits. The information is only a summary and should be read in conjunction with the Company’s audited consolidated financial statements and related notes and other financial information included herein and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

	February 2, 2002	February 3, 2001	Fiscal Year Ended January 29, 2000	January 30, 1999	January 31, 1998
<i>(in thousands, except per share and store data)</i>					
INCOME STATEMENT DATA:					
Sales	\$1,388,032	\$1,414,589	\$1,358,132	\$1,282,385	\$571,314
Cost of sales	935,256	917,354	858,588	796,311	361,422
Gross profit	452,776	497,235	499,544	486,074	209,892
Selling, general and administrative expenses	422,737	416,990	371,998	372,886	170,834
Camelot merger-related costs ⁽¹⁾	—	—	25,473	—	—
Asset impairment charge and restructuring charge (reversal), net ⁽²⁾	—	—	—	1,537	—
Income from operations	30,039	80,245	102,073	111,651	39,058
Interest expense	2,477	3,128	3,496	4,989	5,148
Other expenses (income), net	(2,120)	(6,543)	(4,086)	(2,221)	(153)
Income before income taxes	29,682	83,660	102,663	108,883	34,063
Income tax expense	12,891	43,510	41,270	47,873	13,489
Net income	\$ 16,791	\$ 40,150	\$ 61,393	\$ 61,010	\$ 20,574
Basic earnings per share	\$ 0.40	\$ 0.84	\$ 1.17	\$ 1.19	\$ 0.70
Weighted average number of shares outstanding – basic	41,938	47,597	52,457	51,105	29,483
Diluted earnings per share	\$ 0.39	\$ 0.83	\$ 1.15	\$ 1.14	\$ 0.66
Weighted average number of shares outstanding – diluted	42,553	48,498	53,354	53,530	31,032
BALANCE SHEET DATA (at the end of the period):					
Working capital	\$ 228,982	\$ 244,716	\$ 303,562	\$ 274,535	\$ 88,974
Total assets	935,418	1,002,002	956,410	798,610	374,019
Current portion of long-term obligations	4,711	5,702	5,311	4,802	99
Long-term obligations	9,500	13,767	19,461	36,065	41,409
Shareholders’ equity	448,066	448,822	494,173	432,376	124,522
OPERATING DATA:					
Store count (open at end of period):					
Mall stores	686	755	723	741	340
Freestanding stores	216	229	244	247	199
Total stores	902	984	967	988	539
Comparable store sales increase/(decrease) ⁽³⁾	(2.7)%	0.2%	2.0%	3.7%	10.2%
Total square footage (in thousands)	5,076	5,322	4,913	4,693	2,442

(1) The Camelot merger-related costs included the write-off of the book value of retired assets, professional fees associated with the completion of the merger, severance costs, joint proxy printing and distribution costs, and regulatory filing fees.

(2) The asset impairment charge and restructuring charge (reversal), net, during the year ended January 30, 1999, included an asset impairment charge of \$3.7 million to write down the carrying amount of certain fixed assets at stores, primarily leasehold improvements, and the one-time reversal of the remaining balance of \$2.2 million in the store closing reserve originally established during the fiscal year ended February 3, 1996.

(3) A store is included in comparable store sales calculations at the beginning of its 13th full month of operation.

Management's Discussion and Analysis of Financial Condition and Results of Operations

*Trans World Entertainment
Corporation and Subsidiaries*

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The following is an analysis of the Company's results of operations, liquidity and capital resources. To the extent that such analysis contains statements which are not of a historical nature, such statements are forward-looking statements, which involve risks and uncertainties. These risks include, but are not limited to, changes in the competitive environment for the Company's merchandise, including the entry or exit of non-traditional retailers of the Company's merchandise to or from its markets; the release by the music industry of an increased or decreased number of "hit releases"; general economic factors in markets where the Company's merchandise is sold; and other factors discussed in the Company's filings with the Securities and Exchange Commission.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the reported amounts of assets and liabilities in the financial statements. Management continually evaluates its estimates and judgments including those related to revenue recognition, merchandise inventory and return costs, useful lives of fixed assets, the value of long-lived assets and goodwill, store opening and closing costs, and provision for income taxes. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Note 1 of the Notes to the Consolidated Financial Statements includes a summary of the significant accounting policies and methods used by the Company in the preparation of its consolidated financial statements. We believe that of our significant accounting policies, the following may involve a higher degree of judgment or complexity:

Revenue Recognition: The Company's revenue is primarily from retail sales of merchandise comprised of prerecorded music (including compact discs and audio cassettes), video (including DVD and prerecorded videocassettes), video games and other complementary products (including electronics, accessories, blank tapes and CD-Rs). Revenue is recognized at the point of sale to the consumer, at which time payment is tendered. There are no provisions for uncollectible amounts since payment is received at

the time of sale. Reductions of revenue for returns by customers are generally provided at the point of return due to infrequency and occurrence within short intervals of the sale and immateriality to the financial statements.

Merchandise Inventory and Return Costs: Inventory is stated at the lower of cost or market as determined by the average cost method. The Company is entitled to return merchandise purchased from major vendors for credit against other purchases from these vendors. These vendors often reduce the credit with a merchandise return charge ranging from 0% to 20% of the original merchandise purchase price depending on the type of merchandise being returned. The Company records actual and estimated merchandise return charges in cost of sales.

Fixed Assets and Depreciation: Fixed assets are stated at cost. Major improvements and betterments to existing facilities and equipment are capitalized. Expenditures for maintenance and repairs that do not extend the life of the applicable asset are charged to expense as incurred. Buildings are depreciated over a 30-year term. Fixtures and equipment are depreciated using the straight-line method over their estimated useful lives, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the related lease term. A majority of the Company's operating leases are ten years in term. Amortization of capital lease assets is included in depreciation and amortization expense.

The Company records software developed for internal use in accordance with Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Accordingly, software developed internally for the use by the Company is capitalized only during the application development stage and only certain costs are capitalized.

Impairment of Long-Lived Assets: Fixed assets and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset over its remaining useful life. If such assets are considered to be

Management's Discussion and Analysis of Financial Condition and Results of Operations

Trans World Entertainment Corporation and Subsidiaries

impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value is generally measured based on discounted estimated future cash flows.

Goodwill: Goodwill represents the adjusted amount of the cost of acquisitions in excess of fair value of net assets acquired in purchase transactions, and is being amortized on a straight-line basis over estimated useful lives ranging from 10 to 20 years. The amortization period is determined by taking into consideration the following factors: the critical market position and establishment of brand names; the combined store mass of the companies; the amortization periods generally used in the retail music business; the highly competitive nature of the business including emerging forms of competition; and the overall history of profitability of the acquired businesses. The Company periodically evaluates the carrying amount of goodwill, as well as the related amortization periods to determine whether adjustments to these amounts or useful lives are required based on current events and circumstances. The Company performs an analysis of the recoverability of goodwill using a cash flow approach consistent with the analysis of the impairment of long-lived assets.

Store Opening and Closing Costs: Costs associated with opening a store are expensed as incurred. When it is determined that a store will be closed, estimated unrecoverable costs are charged to expense. Such costs include the net book value of abandoned fixtures, equipment, leasehold improvements and a provision for lease obligations, less estimated sub-rental income. The residual value of any fixed asset moved to a store as part of a relocation is transferred to the relocated store.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are subject to valuation allowances based upon management's estimates of realizability.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain income and expense items as a percentage of sales:

	February 2, 2002	Fiscal Year Ended February 3, 2001	January 29, 2000
Sales	100.0%	100.0%	100.0%
Gross profit	32.6%	35.2%	36.8%
Selling, general and administrative expenses	30.5%	29.5%	27.4%
Camelot merger-related costs	—	—	1.9%
Income from operations	2.1%	5.7%	7.5%
Interest expense	0.2%	0.2%	0.3%
Other expenses (income), net	(0.2)%	(0.4)%	(0.3)%
Income before income taxes	2.1%	5.9%	7.5%
Income tax expense	0.9%	3.1%	3.0%
Net income	1.2%	2.8%	4.5%
Change in comparable store sales	(2.7)%	0.2%	2.0%

Management's Discussion and Analysis of Financial Condition and Results of Operations

Trans World Entertainment Corporation and Subsidiaries

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Fiscal Year Ended February 2, 2002 ("2001") Compared to Fiscal Year Ended February 3, 2001 ("2000")

Sales. The Company's sales decreased \$26.6 million, or 1.9%, from 2000. Comparisons of 2001 and 2000 are affected by an additional week of results in the 2000 reporting year. Because the Company's year ends on the Saturday nearest to January 31, a fifty-third week is added every five or six years. The decrease was attributable to a decrease in the number of weeks in the fiscal year, as the fifty-third week in 2000 increased sales by an estimated \$23.7 million. The decrease was also attributable to a comparable store sales decrease of 2.7% and a decrease of approximately 246,000 square feet of retail selling space through the closing of 101 stores, which was partially offset by the opening of 35 stores, 16 of which were relocations of already existing stores.

For 2001, comparable store sales decreased 3.8% for mall stores and increased 0.9% for freestanding stores. By merchandise category, comparable store sales decreased 12.7% in music, increased 35.3% in video, increased 75.9% in video games and increased 11.8% in other merchandise categories. The increase in comparable sales for video was driven by DVD sales and the increase in comparable sales for other merchandise categories was driven by electronics sales. The decrease in music sales reflected the impact of an industry wide decrease in CD sales.

Gross Profit. Gross profit, as a percentage of sales, decreased to 32.6% in 2001 from 35.2% in 2000 primarily as a result of declining sales in the higher margin music categories, increased sales in the lower margin DVD and video games categories, and increased promotional pricing.

Selling, General and Administrative Expenses. SG&A, as a percentage of sales, increased to 30.5% in 2001 from 29.5% in 2000. The increase can be attributed to increased spending on strategic initiatives including the unified branding of mall stores and e-commerce development. Total spending included in SG&A for the initiatives was \$15.9 million. The Company plans to spend an additional \$7.4 million in 2002.

Interest Expense. Interest expense decreased to \$2.5 million in 2001 from \$3.1 million in 2000 due to lower interest rates on outstanding borrowings.

Other Expenses (Income), Net. Other income, net decreased to \$2.1 million in 2001 from \$6.5 million in 2000. The decrease was due to lower interest income from lower average cash balances during the year and lower interest rates on invested balances.

Income Tax Expense. The effective income tax rate was 43.4% in 2001, as compared to 52.0% in 2000. Included in income tax expense for 2000 was an \$11.0 million charge, which resulted from a court decision disallowing the deduction of interest expenses related to corporate-owned life insurance policies held by Camelot. Excluding the charge, the Company's effective tax rate was 38.9% in 2000. The effective income tax rate for 2001 was impacted by an increase in the valuation allowance for deferred taxes related to losses on investments and a decrease in the Company's income before income taxes. See Note 5 of Notes to Consolidated Financial Statements for a reconciliation of the statutory tax rate to the Company's effective income tax rate.

Net Income. In 2001, the Company's net income decreased to \$16.8 million, compared to a net income of \$40.2 million in 2000. The decrease in net income is attributable to lower gross margins and higher SG&A expenses.

The fifty-third week in 2000 increased operating income by an estimated \$4.0 million and net income by an estimated \$2.5 million, or \$0.05 per share.

Fiscal Year Ended February 3, 2001 ("2000") Compared to Fiscal Year Ended January 29, 2000 ("1999")

Sales. The Company's sales increased \$56.5 million, or 4.2%, from 1999. Comparisons of 2000 and 1999 are affected by an additional week of results in the 2000 reporting year. Because the Company's year ends on the Saturday nearest to January 31, a fifty-third week is added every five or six years. The increase was attributable to an increase in the number of weeks in the fiscal year, as the fifty third week in 2000 increased sales by an estimated \$23.7 million. The increase was also attributable to a comparable store sales increase of 0.2% and the addition of approximately 409,000 square feet of retail selling space through the opening of 12 stores, acquisition of 112 stores (purchase of retail assets from Wax Works, Inc., a privately-held music

and video retailer) and relocation of 36 stores, which was partially offset by the closing of 107 stores.

For 2000, comparable store sales increased 0.2% for mall stores and 0.3% for freestanding stores. By merchandise category, comparable store sales decreased 5.4% in music, increased 29.7% in video and 7.7% in other merchandise. The increase in comparable sales for video was driven by DVD sales.

Gross Profit. Gross profit, as a percentage of sales, decreased to 35.2% in 2000 from 36.8% in 1999 primarily as a result of declining sales in the high margin singles and audio cassette categories, increased sales in the lower margin DVD category, and increased promotional pricing.

Selling, General and Administrative Expenses. SG&A, as a percentage of sales, increased to 29.5% in 2000 from 27.4% in 1999. The increase can be attributed to increased spending on strategic initiatives including the unified branding of mall stores, supply chain enhancement and e-commerce development.

Interest Expense. Interest expense decreased from \$3.5 million in 1999 to \$3.1 million in 2000 due to lower average outstanding borrowings.

Other Expenses (Income), Net. Other income, net increased from \$4.1 million in 1999 to \$6.5 million in 2000. The increase was due to interest income from higher average cash balances during the year.

Income Tax Expense. The effective income tax rate was 52.0% in 2000. Included in income tax expense was an \$11.0 million charge, which resulted from a court decision disallowing the deduction of interest expenses related to corporate-owned life insurance policies held by Camelot. Excluding the charge, the Company's effective tax rate was 38.9% in 2000. See Note 5 of Notes to Consolidated Financial Statements for a reconciliation of the statutory tax rate to the Company's effective income tax rate.

Net Income. In 2000, the Company's net income decreased to \$40.2 million, compared to a net income of \$61.4 million in 1999. The decrease in net income is attributable to lower gross margins,

higher SG&A expenses and the increase in income tax expense related to the court decision on corporate-owned life insurance policies.

The fifty-third week in 2000 increased operating income by an estimated \$4.0 million and net income by an estimated \$2.5 million, or \$0.05 per share.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources. The Company's primary sources of working capital are cash flows provided by operations and borrowing capacity under its revolving credit facility. The Company ended fiscal 2001 with cash balances of approximately \$254.9 million, compared to \$265.1 million at the end of 2000.

Cash provided by operating activities decreased \$95.4 million to \$72.6 million in 2001, compared to \$168.0 million in 2000. The decrease was due to lower net income in 2001 versus 2000 and a reduction in accounts payable of \$51.3 million in 2001 versus an increase in accounts payable of \$74.5 million in 2000. The decrease in accounts payable was due to a decrease in inventory of \$66.7 million. Accounts payable leveraging (the percentage of merchandise inventory financed by vendor credit terms, e.g., accounts payable divided by merchandise inventory) increased to 92.6% as of February 2, 2002 compared with 90.4% as of February 3, 2001.

Cash used in investing activities was \$57.8 million in 2001, as compared to \$92.7 million in 2000. In 2001, the primary use of cash was \$51.1 million for the acquisition of fixed assets. In 2000, the primary uses of cash were \$56.5 million for acquisitions, primarily relating to the acquired Disc Jockey stores, and \$32.8 million for the acquisition of fixed assets.

Cash used in financing activities was \$24.9 million in 2001, as compared to \$90.2 million in 2000. In 2001 and 2000, the primary use of cash was \$20.2 million and \$85.7 million, respectively, to repurchase outstanding shares of the Company's common stock under programs authorized by the Board of Directors.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Trans World Entertainment Corporation and Subsidiaries

**Management's
Discussion and Analysis
of Financial Condition
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As of February 2, 2002, the Company had purchased approximately 12.8 million shares of the 15.0 million shares authorized by the Board of Directors under three separate programs of 5.0 million shares each.

The Company has a three-year, \$100 million secured revolving credit facility with Congress Financial Corporation that expires in July 2003 and automatically renews on a year-to-year basis thereafter at the discretion of both parties. Interest expense decreased to \$2.5 million in 2001 from \$3.1 million in 2000. As of February 2, 2002 and February 3, 2001, the Company did not have any borrowings outstanding under the facility, and \$100 million was available.

The revolving credit facility contains certain restrictive provisions, including provisions governing cash dividends and acquisitions, is collateralized by merchandise inventory and has a minimum net worth covenant.

Capital Expenditures. The majority of the Company's capital expenditures are for new stores and the relocation of existing stores. The Company typically finances its capital expenditures through cash generated from operations. The Company may also receive financing from landlords in the form of construction allowances or rent concessions. Total capital expenditures were approximately \$51.1 million in 2001, including \$22.3 million for the Company's eWorks and rebranding initiatives.

In fiscal 2002, the Company plans to spend approximately \$60.0 million, net of construction allowances, for additions to fixed assets, including \$35.0 million for the eWorks initiative.

Contractual Obligations and Commitments. The following table summarizes the Company's contractual obligations at February 2, 2002, and the effect that such obligations are expected to have on liquidity and cash flows in future periods.

Contractual Obligation	2002	2003 – 2004	2005 – 2006	2007 and Beyond	Total
			<i>(in thousands)</i>		
Operating lease obligations	\$110,183	\$211,811	\$153,223	\$197,145	\$672,362
Capital lease obligations ⁽¹⁾	6,512	5,061	3,673	15,374	30,620
Total	\$116,695	\$216,872	\$156,896	\$212,519	\$702,982

(1) Includes \$16.4 million in interest.

Seasonality. The Company's business is highly seasonal, with the highest sales and earnings occurring in the fourth fiscal quarter. See Note 11 of the Notes to Consolidated Financial Statements for quarterly financial highlights.

Recently Issued Accounting Pronouncements. In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and subsequently, SFAS No. 144 after its adoption.

The Company adopted the provisions of SFAS No. 141 as of July 1, 2001, and SFAS No. 142 is effective February 3, 2002. Furthermore, any goodwill or intangible asset determined to have an indefinite useful life and acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS No. 142.

Upon adoption of SFAS No. 142, the Company is required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform to the new criteria in SFAS No. 141 for recognition apart from goodwill. Under SFAS No. 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the second quarter of 2002. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 by the end of the first quarter of 2002. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first quarter of 2002.

In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Company will be required to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including existing goodwill and intangible assets, to those reporting units as of February 3, 2002. The Company will then have up to six months

from February 3, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. The second step is required to be completed as soon as possible, but no later than the end of the year of adoption. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations.

As of the date of adoption of SFAS No. 142, the Company had unamortized goodwill in the amount of \$40.9 million, which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill was \$2.9 million and \$2.3 million for the years ended February 2, 2002 and February 3, 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS Nos. 141 and 142, it is not practical to reasonably estimate the impact of adopting these Statements on the Company's consolidated financial statements at the date of this report, including whether the Company will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs.

Management's Discussion and Analysis of Financial Condition and Results of Operations

*Trans World Entertainment
Corporation and Subsidiaries*

SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation that results from the acquisition, construction, development and (or) normal use of the assets as a liability in the period in which it is incurred if a reasonable estimate of fair value can be made. The standard also requires the Company to record a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 for the quarter ending May 3, 2003. The Company is currently assessing SFAS No. 143 and the impact that adoption will have on the consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the

carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company is required to adopt SFAS No. 144 for the quarter ending May 3, 2002. Management does not expect the adoption of SFAS No. 144 to have a material impact on the Company's consolidated financial statements.

Dividend Policy. The Company has never declared or paid cash dividends on its Common Stock. The Company's credit agreement currently allows the Company to pay a cash dividend once in each calendar year. These dividends are restricted to ten percent of the most recent fiscal year's consolidated net income and can only be paid if, after any payment of dividends, the Company maintains \$25 million of availability under the credit agreement. Any future determination as to the payment of dividends would depend upon capital requirements and limitations imposed by the Company's credit agreement and such other factors as the Board of Directors of the Company may consider.

Consolidated Balance Sheets

Trans World Entertainment
Corporation and Subsidiaries

	February 2, 2002	February 3, 2001
	<i>(in thousands)</i>	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 254,943	\$ 265,084
Accounts receivable	8,244	8,726
Merchandise inventory	409,067	475,747
Prepaid expenses and other	6,780	5,771
Total current assets	679,034	755,328
FIXED ASSETS, net	160,430	152,741
DEFERRED TAX ASSET	32,977	34,317
GOODWILL	40,914	43,773
OTHER ASSETS	22,063	15,843
TOTAL ASSETS	\$ 935,418	\$1,002,002
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 378,902	\$ 430,185
Income taxes payable	26,003	28,114
Accrued expenses and other	34,276	37,380
Deferred taxes	6,160	9,231
Current portion of capital lease obligations	4,711	5,702
Total current liabilities	450,052	510,612
CAPITAL LEASE OBLIGATIONS, less current portion	9,500	13,767
OTHER LIABILITIES	27,800	28,801
TOTAL LIABILITIES	487,352	553,180
SHAREHOLDERS' EQUITY		
Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued)	—	—
Common stock (\$0.01 par value; 200,000,000 shares authorized; 53,929,348 shares and 53,676,756 shares issued in 2001 and 2000, respectively)	539	537
Additional paid-in capital	286,767	285,292
Unearned compensation – restricted stock	(280)	(6)
Treasury stock at cost (12,884,752 and 10,568,432 shares in 2001 and 2000, respectively)	(117,811)	(97,579)
Accumulated other comprehensive loss	—	(1,482)
Retained earnings	278,851	262,060
TOTAL SHAREHOLDERS' EQUITY	448,066	448,822
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 935,418	\$1,002,002

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Trans World Entertainment
Corporation and Subsidiaries

	February 2, 2002	Fiscal Year Ended February 3, 2001	January 29, 2000
<i>(in thousands, except per share amounts)</i>			
Sales	\$1,388,032	\$1,414,589	\$1,358,132
Cost of sales	935,256	917,354	858,588
Gross profit	452,776	497,235	499,544
Selling, general and administrative expenses	422,737	416,990	371,998
Camelot merger-related costs, net	—	—	25,473
Income from operations	30,039	80,245	102,073
Interest expense	2,477	3,128	3,496
Other expense (income), net	(2,120)	(6,543)	(4,086)
Income before income taxes	29,682	83,660	102,663
Income tax expense	12,891	43,510	41,270
NET INCOME	\$ 16,791	\$ 40,150	\$ 61,393
BASIC EARNINGS PER SHARE	\$ 0.40	\$ 0.84	\$ 1.17
Weighted average number of common shares outstanding – basic	41,938	47,597	52,457
DILUTED EARNINGS PER SHARE	\$ 0.39	\$ 0.83	\$ 1.15
Weighted average number of common shares outstanding – diluted	42,553	48,498	53,354

See Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Trans World Entertainment
Corporation and Subsidiaries

	Common Stock		Additional Paid in Capital	Unearned Compensation Stock Plans	Treasury Stock	Accum. Other Comp. Loss	Retained Earnings	Shareholders' Equity
	Shares	Amount						
<i>(in thousands)</i>								
Balance as of January 30, 1999	52,182	\$522	\$271,805	\$ (78)	\$ (390)	—	\$160,517	\$432,376
Issuance of treasury stock under incentive stock programs	—	—	9	—	4	—	—	13
Repurchase of shares of treasury stock	—	—	—	—	(11,469)	—	—	(11,469)
Issuance of restricted stock under incentive stock programs	30	—	336	(336)	—	—	—	—
Amortization of unearned compensation – restricted stock	—	—	—	66	—	—	—	66
Issuance of director stock options	—	—	64	—	—	—	—	64
Exercise of stock options and related tax benefit	1,214	12	11,718	—	—	—	—	11,730
Net Income	—	—	—	—	—	—	61,393	61,393
Balance as of January 29, 2000	53,426	\$534	\$283,932	\$(348)	\$ (11,855)	—	\$221,910	\$494,173
Comprehensive income:								
Net Income	—	—	—	—	—	—	40,150	—
Unrealized loss on available for sale securities	—	—	—	—	—	(1,482)	—	—
Total comprehensive income								38,668
Issuance of treasury stock under incentive stock programs	—	—	6	—	4	—	—	10
Repurchase of shares of treasury stock	—	—	—	—	(85,728)	—	—	(85,728)
Forfeiture of unearned compensation – restricted stock	(30)	—	(335)	335	—	—	—	—
Amortization of unearned compensation – restricted stock	—	—	—	7	—	—	—	7
Issuance of director stock options	—	—	284	—	—	—	—	284
Exercise of stock options and related tax benefit	281	3	1,405	—	—	—	—	1,408
Balance as of February 3, 2001	53,677	\$537	\$285,292	\$ (6)	\$ (97,579)	\$(1,482)	\$262,060	\$448,822
Comprehensive income:								
Net Income	—	—	—	—	—	—	16,791	—
Unrealized loss on available for sale securities	—	—	—	—	—	(518)	—	—
Reclassification adjustment for realized loss on available for sale securities included in net income for the period	—	—	—	—	—	2,000	—	—
Total comprehensive income								18,273
Issuance of treasury stock under incentive stock programs	—	—	4	—	4	—	—	8
Repurchase of shares of treasury stock	—	—	—	—	(20,236)	—	—	(20,236)
Issuance of restricted stock under incentive stock programs	70	—	607	(607)	—	—	—	—
Forfeiture of unearned compensation – restricted stock	(25)	—	(205)	205	—	—	—	—
Amortization of unearned compensation – restricted stock	—	—	—	128	—	—	—	128
Issuance of director stock options	—	—	150	—	—	—	—	150
Exercise of stock options and related tax benefit	207	2	919	—	—	—	—	921
Balance as of February 2, 2002	53,929	\$539	\$286,767	\$(280)	\$(117,811)	—	\$278,851	\$448,066

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Trans World Entertainment
Corporation and Subsidiaries

	February 2, 2002	Fiscal Year Ended February 3, 2001	January 29, 2000
	<i>(in thousands)</i>		
OPERATING ACTIVITIES:			
Net income	\$ 16,791	\$ 40,150	\$ 61,393
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	42,335	38,433	37,709
Amortization of lease valuations, net	(543)	(712)	(2,765)
Loss on impairment from fixed assets	—	—	6,649
Stock compensation programs	286	301	143
Loss on disposal of assets	3,720	2,546	3,670
Write-off of investment in unconsolidated affiliate	—	2,100	—
Realized loss on available for sale securities	2,000	—	—
Deferred tax expense (benefit)	(1,731)	(3,124)	8,251
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	482	(2,753)	(173)
Merchandise inventory	66,680	(7,766)	(11,285)
Prepaid expenses and other	(1,009)	(230)	4,179
Other assets	(1,765)	45	(1,272)
Accounts payable	(51,283)	74,525	132,658
Income taxes payable	(1,770)	6,777	(6,261)
Accrued expenses and other	(3,104)	4,612	(18,766)
Other liabilities	1,461	13,024	(1,996)
Net cash provided by operating activities	72,550	167,928	212,134
INVESTING ACTIVITIES:			
Purchases of fixed assets	(51,056)	(32,782)	(51,234)
Proceeds from sales of fixed assets	171	—	—
Acquisition of businesses, net of cash acquired	—	(56,539)	—
Purchase of investments in unconsolidated affiliates	(7,481)	(1,453)	(2,100)
Purchase of available for sale securities	—	(2,000)	—
Disposal of videocassette rental inventory, net of purchases	589	98	23
Net cash used by investing activities	(57,777)	(92,676)	(53,311)
FINANCING ACTIVITIES:			
Payments of long-term debt and financing fees	—	—	(22,000)
Payments of capital lease obligations	(5,258)	(5,303)	(4,036)
Proceeds from capital leases	—	—	9,941
Payments for purchases of treasury stock	(20,236)	(85,728)	(11,469)
Exercise of stock options	580	837	9,356
Net cash used by financing activities	(24,914)	(90,194)	(18,208)
Net (decrease) increase in cash and cash equivalents	(10,141)	(14,942)	140,615
Cash and cash equivalents, beginning of year	265,084	280,026	139,411
Cash and cash equivalents, end of year	\$254,943	\$265,084	\$280,026
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of treasury stock under incentive stock programs	\$ 8	\$ 10	\$ 13
Issuance of restricted shares under restricted stock plan	402	—	336
Income tax benefit resulting from exercises of stock options	341	571	2,374

See Notes to Consolidated Financial Statements.

**Note 1. Nature of Operations and Summary of
Significant Accounting Policies**

Nature of Operations: Trans World Entertainment Corporation is one of the largest specialty retailers of prerecorded music, videos and related products in the United States. The Company operates a chain of retail entertainment stores and an e-commerce site, fye.com, in a single industry segment. At February 2, 2002, the Company operated 902 stores totaling approximately 5.1 million square feet in 46 states, the District of Columbia, Commonwealth of Puerto Rico and the U.S. Virgin Islands, with a majority of the stores concentrated in the eastern half of the United States. The Company's business is seasonal in nature, with the peak selling period being the Christmas holiday season in the Company's fourth fiscal quarter.

Basis of Presentation: The consolidated financial statements consist of Trans World Entertainment Corporation, its wholly-owned subsidiary, Record Town, Inc. ("Record Town"), and Record Town's subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated. Investments in unconsolidated affiliates have been recorded on the cost basis. 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 and 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. On April 22, 1999, the Company merged with Camelot Music Holdings, Inc. ("Camelot"). The transaction was accounted for as a pooling-of-interests. Accordingly, 1999 consolidated financial statements have been restated to include combined results of operations, financial position and cash flows of Camelot as though it had been a part of the Company since Camelot's adoption of "fresh-start" accounting on January 31, 1998.

Items Affecting Comparability: The Company's fiscal year is a 52 or 53-week period ending on the Saturday nearest to January 31. Fiscal 2001, 2000, and 1999 ended February 2, 2002, February 3, 2001, and January 29, 2000, respectively, and each fiscal year consisted of 52 weeks, except for fiscal year 2000, which consisted of 53 weeks. The fifty-third week in 2000 increased sales by an estimated \$23.7 million, operating income by an estimated \$4.0 million and net income by an estimated \$2.5 million, or \$0.05 per share.

Revenue Recognition: The Company's revenue is primarily from retail sales of merchandise comprised of prerecorded music (including compact discs and audio cassettes), video (including DVD and prerecorded videocassettes), video games and other complementary products (including electronics, accessories, blank tapes and CD-Rs). Revenue is recognized at the point of sale to the consumer, at which time payment is tendered. There are no provisions for uncollectible amounts since payment is received at the time of sale. Reductions of revenue for returns by customers are generally provided at the point of return due to infrequency and occurrence within short intervals of the sale and immateriality to the financial statements.

Cash and Cash Equivalents: The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risks: The Company maintains centralized cash management and investment programs whereby excess cash balances are invested in short-term funds and money market instruments considered to be cash equivalents. The Company's investment portfolio is diversified and consists of short-term investment grade securities consistent with its investment guidelines. These guidelines include the provision that sufficient liquidity will be maintained to meet anticipated cash flow needs. The Company maintains cash and cash equivalents with various financial institutions. At times, such amounts may exceed the F.D.I.C. limits. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash investments.

Concentration of Business Risks: The Company purchases inventory for its stores from approximately 785 suppliers, with approximately 65% of purchases being made from five suppliers. In the past, the Company has not experienced difficulty in obtaining satisfactory sources of supply, and management believes that it will retain access to adequate sources of supply. However, a loss of a major supplier could cause a loss of sales, which would have an adverse effect on operating results and also result in a decrease in vendor support for the Company's advertising programs.

Merchandise Inventory and Return Costs: Inventory is stated at the lower of cost or market as determined by the average cost method. The Company is entitled to return merchandise purchased

Notes to Consolidated Financial Statements

Trans World Entertainment Corporation and Subsidiaries

Note 1. Nature of Operations and Summary of Significant Accounting Policies (cont'd)

from major vendors for credit against other purchases from these vendors. These vendors often reduce the credit with a merchandise return charge ranging from 0% to 20% of the original merchandise purchase price depending on the type of merchandise being returned. The Company records actual and estimated merchandise return charges in cost of sales.

Fixed Assets and Depreciation: Fixed assets are stated at cost. Major improvements and betterments to existing facilities and equipment are capitalized. Expenditures for maintenance and repairs that do not extend the life of the applicable asset are charged to expense as incurred. Buildings are depreciated over a 30-year term. Fixtures and equipment are depreciated using the straight-line method over their estimated useful lives, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the related lease term. A majority of the Company's operating leases are ten years in term. Amortization of capital lease assets is included in depreciation and amortization expense.

The Company records software developed for internal use in accordance with Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Accordingly, software developed internally for the use by the Company is capitalized only during the application development stage and only certain costs are capitalized.

Impairment of Long-Lived Assets: Fixed assets and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset over its remaining useful life. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair

value of the assets. Fair value is generally measured based on discounted estimated future cash flows. During fiscal 1999, the Company recorded an impairment loss of \$6.7 million as part of the Camelot merger charge for the write-down of certain fixed assets acquired in the merger.

Goodwill: Goodwill represents the adjusted amount of the cost of acquisitions in excess of fair value of net assets acquired in purchase transactions, and is being amortized on a straight-line basis over estimated useful lives ranging from 10 to 20 years. The amortization period is determined by taking into consideration the following factors: the critical market position and establishment of brand names; the combined store mass of the companies; the amortization periods generally used in the retail music business; the highly competitive nature of the business including emerging forms of competition; and the overall history of profitability of the acquired businesses. The Company periodically evaluates the carrying amount of goodwill, as well as the related amortization periods to determine whether adjustments to these amounts or useful lives are required based on current events and circumstances. The Company performs an analysis of the recoverability of goodwill using a cash flow approach consistent with the analysis of the impairment of long-lived assets.

Advertising Costs: The costs of advertising are expensed in the first period in which such advertising takes place. Total advertising expense was \$25.6 million, \$22.3 million, and \$18.8 million in fiscal 2001, 2000, and 1999, respectively.

Store Opening and Closing Costs: Costs associated with opening a store are expensed as incurred. When it is determined that a store will be closed, estimated unrecoverable costs are charged to expense. Such costs include the net book value of abandoned fixtures, equipment, leasehold improvements and a provision for lease obligations, less estimated sub-rental income. The residual value of any fixed asset moved to a store as part of a relocation is transferred to the relocated store.

Gift Certificates: The Company offers gift certificates for sale in the form of gift cards. A deferred income account, which is

**Note 1. Nature of Operations and Summary of
Significant Accounting Policies (cont'd)**

included in accrued expenses and other in the consolidated balance sheet, is established for gift cards issued. When gift cards are redeemed at the store level, revenue is recorded.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are subject to valuation allowances based upon management's estimates of realizability.

Comprehensive Income: The Company accounts for comprehensive income in accordance with Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income". SFAS No. 130 requires only additional disclosures in the consolidated financial statements; it does not affect the Company's financial position or results of operations. Comprehensive income for 2001 and 2000 consists of net income and net unrealized losses on available for sale securities and is presented in the Consolidated Statements of Shareholders' Equity. During 1999, the Company did not have other items of comprehensive income as defined by SFAS No. 130, and accordingly, comprehensive income is equal to net income.

Stock-Based Compensation: The Company applies the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations including Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation – An Interpretation of APB No. 25", in accounting for its fixed plan stock options. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-

Based Compensation", established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

Investment Securities: Certain investments are categorized as available for sale securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities"; and are recorded at fair value based upon quoted market prices. Unrealized gains and losses are excluded from earnings and reflected in shareholders' equity until realized. Realized gains and losses for available for sale securities are included in earnings and are computed using the specific identification method for determining the cost of securities sold. A decline in the market value of any available for sale security below cost that is deemed other than temporary is charged to earnings, resulting in the establishment of a new cost basis for the security.

As of February 2, 2002 the amortized cost, gross unrealized loss and fair value of the Company's available for sale securities was \$0. As of February 3, 2001, the amortized cost, gross unrealized loss and fair value of the Company's available for sale securities was \$2.0 million, (\$1.5 million) and \$0.5 million, respectively. Gross realized losses recognized during fiscal 2001, 2000, and 1999 were \$2.0 million, \$0 and \$0, respectively.

Earnings Per Share: The Company accounts for earnings per share under the provisions of SFAS No. 128, "Earnings per Share". This standard requires the Company to disclose basic earnings per share and diluted earnings per share. Basic earnings per share are calculated by dividing net income by the weighted average common shares outstanding for the period. Diluted earnings per share is calculated by dividing net income by the sum of the weighted average shares outstanding and additional common shares that would have been outstanding if the dilutive potential common shares had been issued for the Company's common stock options from the Company's Stock Option Plans (see Note 8). As required by SFAS No. 128, all outstanding common stock options were included even though their exercise may be contingent upon vesting. Weighted average shares are calculated as follows:

Notes to Consolidated Financial Statements

Trans World Entertainment Corporation and Subsidiaries

Note 1. Nature of Operations and Summary of Significant Accounting Policies (cont'd)

	2001	Fiscal Year 2000	1999
Weighted average common shares outstanding – basic	41,938	47,597	52,457
Dilutive effect of employee stock options	615	901	897
Weighted average common shares outstanding – diluted	42,553	48,498	53,354
Antidilutive stock options	4,355	3,232	1,707

Antidilutive stock options outstanding were excluded from the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the common shares during the period.

Fair Value of Financial Instruments: The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and other current liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments.

Recently Issued Accounting Pronouncements: In July 2001, the FASB issued SFAS No. 141, “Business Combinations,” and SFAS No. 142, “Goodwill and Other Intangible Assets.” SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,” and subsequently, SFAS No. 144 after its adoption.

The Company adopted the provisions of SFAS No. 141 as of July 1, 2001, and SFAS No. 142 is effective February 3, 2002. Furthermore, any goodwill or intangible asset determined to have an indefinite useful life and acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of SFAS No. 142.

Upon adoption of SFAS No. 142, the Company is required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications in order to conform to the new criteria in SFAS No. 141 for recognition apart from goodwill. Under SFAS No. 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the second quarter of 2002. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 by the end of the first quarter of 2002. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first quarter of 2002.

In connection with SFAS No. 142’s transitional goodwill impairment evaluation, the Company will be required to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including existing goodwill and intangible

Note 1. Nature of Operations and Summary of Significant Accounting Policies (cont'd)

assets, to those reporting units as of February 3, 2002. The Company will then have up to six months from February 3, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and the Company must perform the second step of the transitional impairment test. The second step is required to be completed as soon as possible, but no later than the end of the year of adoption. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations.

As of the date of adoption of SFAS No. 142, the Company had unamortized goodwill in the amount of \$40.9 million, which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill was \$2.9 million and \$2.3 million for the years ended February 2, 2002 and February 3, 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS Nos. 141 and 142, it is not practical to reasonably estimate the impact of adopting these Statements on the Company's consolidated financial statements at the date of this report, including whether the Company will be required to recognize any transitional impairment losses as the cumulative effect of a change in accounting principle.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation that results from the acquisition, construction,

development and (or) normal use of the assets as a liability in the period in which it is incurred if a reasonable estimate of fair value can be made. The standard also requires the Company to record a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 for the quarter ending May 3, 2003. The Company is currently assessing SFAS No. 143 and the impact that adoption will have on the consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company is required to adopt SFAS No. 144 for the quarter ending May 3, 2002. Management does not expect the adoption of SFAS No. 144 to have a material impact on the Company's consolidated financial statements.

Note 2. Business Combinations

On October 30, 2000, the Company acquired certain assets and assumed certain liabilities and operating lease commitments of 112 stores from Wax Works, Inc., a privately-held music and video retailer. The stores are located primarily in mall locations throughout the Midwest and southern United States. The acquisition was accounted for using the purchase method of

Notes to Consolidated Financial Statements

Trans World Entertainment Corporation and Subsidiaries

Note 2. Business Combinations (cont'd)

accounting. The Company paid \$49.8 million, net of cash acquired, for the assets, including merchandise inventory, fixed assets, leasehold interests and other related current assets. The Company recognized approximately \$10.2 million in goodwill related to the acquisition. The goodwill is being amortized on a straight-line basis over a 15-year period.

On August 11, 2000, the Company acquired a majority interest in SecondSpin.com for \$4.2 million, net of cash acquired. The acquisition was accounted for under the purchase method of accounting. SecondSpin.com operates online and in store marketplaces for buying and selling of used CDs, videos and DVDs. SecondSpin.com operates six stores in California and Colorado. In addition, the Company provided SecondSpin.com \$2.5 million in the form of convertible debt to repay long-term obligations under a recapitalization agreement with the other shareholders of SecondSpin.com. The Company recognized approximately \$4.4 million in goodwill related to the acquisition. The goodwill is being amortized on a straight-line basis over a 10-year period.

On April 22, 1999, under the Agreement and Plan of Merger dated October 26, 1998, the Company acquired Camelot, a specialty retailer of prerecorded music, videocassettes and DVDs, and related accessories, in a stock-for-stock transaction accounted for as a pooling-of-interests. Camelot operated over 480 retail locations in 38 states, the District of Columbia and the Commonwealth of Puerto Rico. Upon completion of the merger, Camelot became a wholly-owned subsidiary of the Company. In the merger, each share of Camelot's common stock was converted into 1.9 shares of the Company's common stock. Each outstanding option to purchase Camelot common stock immediately prior to the completion of the merger was converted into 1.9 fully vested and exercisable options to acquire the Company's common stock. The exercise prices of these options were adjusted accordingly for the 1.9 to 1 conversion ratio. As a result, the Company issued approximately 19.3 million shares of its common stock and converted 1.3 million options to acquire its common stock. In connection with the merger, all of Camelot's outstanding notes payable were repaid.

During 2001, 2000, and 1999, total amortization related to goodwill was \$2.9 million, \$2.3 million, and \$2.4 million, respectively.

Note 3. Fixed Assets

	February 2, 2002	February 3, 2001
Buildings	\$ 18,926	\$ 18,926
Fixtures and equipment	215,792	189,186
Leasehold improvements	119,024	111,057
	353,742	319,169
Allowances for depreciation and amortization	(193,312)	(166,428)
	\$160,430	\$152,741

Depreciation and amortization expense related to the Company's distribution center facility and equipment of \$1.6 million in fiscal 2001, 2000, and 1999, respectively, is included in cost of sales. All other depreciation and amortization of fixed assets is included in selling, general and administrative expenses. Depreciation and amortization of fixed assets is included in the condensed consolidated statements of income as follows:

	2001	Fiscal Year 2000	1999
		<i>(in thousands)</i>	
Cost of sales	\$ 1,637	\$ 1,637	\$ 1,612
Selling, general and administrative expenses	\$37,839	\$34,567	\$33,732

Note 4. Debt

The Company's \$100.0 million secured revolving credit facility with Congress Financial Corporation expires in July 2003, and automatically renews on a year-to-year basis thereafter at the discretion of both parties. The facility bears interest at the prime interest rate or the Eurodollar interest rate plus 1.75% (3.53% at February 2, 2002), and is collateralized by the Company's inventory allowing the Company to borrow up to 65% of its eligible merchandise inventory to a maximum of \$100.0 million.

During fiscal 2001, 2000, and 1999, the highest aggregate balances outstanding under the current and previous revolving credit facilities were \$12.2 million, \$12.5 million, and \$3.3 million, respectively. The weighted average interest rates during fiscal 2001, 2000, and 1999 based on average daily balances were 6.94%, 9.50%, and 7.44%, respectively. The Company did not have any balances outstanding under the Company's revolving credit agreements at the end of fiscal 2001, 2000, and 1999.

Interest paid during fiscal 2001, 2000, and 1999 was approximately \$2.5 million, \$3.1 million, and \$3.6 million, respectively.

Note 5. Income Taxes

Income tax expense consists of the following:

	2001	Fiscal Year 2000	1999
		<i>(in thousands)</i>	
Federal – current	\$12,161	\$41,664	\$30,498
State – current	2,461	4,970	2,521
Deferred	(1,731)	(3,124)	8,251
	\$12,891	\$43,510	\$41,270

A reconciliation of the Company's effective tax rates with the Federal statutory rate is as follows:

	2001	Fiscal Year 2000	1999
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax effect	1.5%	0.8%	1.4%
Merger costs	—	—	3.6%
Change in valuation allowance	6.7%	1.4%	—
Corporate-owned life insurance disallowance	—	13.1%	—
Other	0.2%	1.7%	0.2%
Effective income tax rate	43.4%	52.0%	40.2%

On October 16, 2000, the United States District Court for the District of Delaware issued an opinion in favor of the Internal Revenue Service ("IRS"), in the case IRS vs. CM Holdings Inc., a wholly-owned subsidiary of the Company. The case was brought against CM Holdings Inc. by the IRS to challenge the deduction of interest expense related to corporate-owned life insurance policies held by Camelot, a subsidiary of CM Holdings Inc., for certain tax years that ended on or before February 1994. The court ruled that interest deductions on policy loans should not be allowed and the Company is responsible for the taxes and related interest and penalties. As a result of the District Court decision, the Company accrued \$11.0 million during 2000, which is reflected in other (long-term) liabilities in the consolidated balance sheets as of February 2, 2002 and February 3, 2001. The Company filed an appeal in response to the decision. On October 30, 2001, the Company's appeal was heard by the United States Third Circuit Court of Appeals, and a decision is pending.

Notes to Consolidated Financial Statements

Trans World Entertainment Corporation and Subsidiaries

Note 5. Income Taxes (cont'd)

Significant components of the Company's deferred tax assets and liabilities are as follows:

	February 2, 2002	February 3, 2001
	<i>(in thousands)</i>	
CURRENT DEFERRED TAX ASSETS		
Accrued expenses	\$ 824	\$ 1,287
Other	110	105
Total current deferred tax assets	934	1,392
CURRENT DEFERRED TAX LIABILITIES		
Inventory	7,068	10,593
Prepaid expenses	26	30
Total current deferred tax liabilities	7,094	10,623
Net current deferred tax liability	\$(6,160)	\$(9,231)
NON-CURRENT DEFERRED TAX ASSETS		
Fixed assets	\$19,692	\$22,459
Federal and state net operating loss carryforwards	9,160	5,401
Accrued rent	5,689	5,319
Capitalized leases	1,140	1,001
Losses on investments	3,117	1,396
Accrued expenses	3	220
Amortization of lease valuations and other assets	1,901	2,120
Pension and compensation related accruals	1,361	739
Total non-current deferred tax assets before valuation allowance	42,063	38,655
Less: valuation allowance	(6,275)	(1,396)
Total non-current deferred tax assets	\$35,788	\$37,259
NON-CURRENT DEFERRED TAX LIABILITIES		
Goodwill	2,811	2,942
Total non-current deferred tax liabilities	\$ 2,811	\$ 2,942
Net non-current deferred tax asset	\$32,977	\$34,317
TOTAL NET DEFERRED TAX ASSET	\$26,817	\$25,086

At February 2, 2002 and February 3, 2001, the Company had gross deferred tax assets of \$43.0 million and \$40.0 million, respectively, and gross deferred tax liabilities of \$9.9 million and \$13.6 million, respectively. The Company had a net operating loss carryforward of \$8.1 million for Federal income tax purposes as of the end of fiscal 2001 and approximately \$121.0 million for state income tax purposes as of the end of fiscal 2001 that expire at various times through 2015 and are subject to certain limitations. The state net operating loss carryforwards are also subject to various business apportionment factors and multiple jurisdictional requirements when utilized.

Note 5. Income Taxes (cont'd)

In assessing the propriety of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of projected future taxable income over the periods in which the deferred tax assets are deductible, the valuation allowance was increased from \$1.4 million to \$6.3 million, a level where management believes that it is more likely than not that the tax benefit will be realized. The valuation allowance was increased to reserve for deferred tax assets attributable to losses on investments and net operating loss carryforwards. The amount of the deferred tax asset considered realizable could be reduced if estimates of future taxable income during the carryforward period are reduced.

The Company paid income taxes, net of refunds, of approximately \$16.4 million, \$28.8 million, and \$39.3 million during fiscal 2001, 2000, and 1999, respectively.

Note 6. Commitments and Contingencies

On October 16, 2000, the United States District Court for the District of Delaware issued an opinion in favor of the Internal Revenue Service ("IRS"), in the case *IRS vs. CM Holdings Inc.*, a wholly-owned subsidiary of the Company. The case was brought against CM Holdings Inc. by the IRS to challenge the deduction of interest expense related to corporate-owned life insurance policies held by Camelot, a subsidiary of CM Holdings Inc., for certain tax years that ended on or before February 1994. The court ruled that interest deductions on policy loans should not be allowed and the Company is responsible for the taxes and related interest and penalties. As a result of the District Court decision, the Company accrued \$11.0 million during 2000, which is reflected in other (long-term) liabilities in the consolidated balance sheet as of February 2, 2002 and February 3, 2001. The Company filed an

appeal in response to the decision. On October 30, 2001, the Company's appeal was heard by the United States Third Circuit Court of Appeals, and a decision is pending.

On August 8, 2000, 30 Attorneys General served a complaint against the Company, five major music distributors and two other specialty retailers in the United States District Court for the Southern District of New York ("AG's suit"). The complaint has been subsequently amended to add additional states as plaintiffs and to reflect the transfer of the case to United States District Court in Maine pursuant to the Multidistrict Litigation Rules. The AG's suit alleges that the distributors and retailers conspired to violate certain anti-trust laws and to fix prices by requiring retailers to adhere to minimum advertised prices in order to receive cooperative advertising funds from the distributors. The complaint alleges that consumers were damaged in an unspecified amount and seeks treble damages and civil penalties. Following the service of the AG's suit, these same defendants were named as defendants in private class action suits ("Class Actions"), each with similar allegations as in the AG's suit. The Class Actions have been consolidated along with the AG's suit in the United States District Court in Maine. It is management's belief that the lawsuits are without merit and the Company will ultimately prevail in this regard.

The Company is subject to other legal proceedings and claims that have arisen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurance as to the ultimate disposition of these matters, it is management's opinion, based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations and financial condition of the Company.

Note 7. Leases

As more fully discussed in Note 10, the Company leases its distribution center and administrative offices under three capital leases with its Chief Executive Officer and largest shareholder. The Company also has a capital lease for its point-of-sale system.

Notes to Consolidated Financial Statements

Trans World Entertainment Corporation and Subsidiaries

Note 7. Leases (cont'd)

Fixed asset amounts for capital leases, which are included in the fixed assets on the accompanying balance sheets, are as follows:

	February 2, 2002	February 3, 2001
	<i>(in thousands)</i>	
Buildings	\$ 9,342	\$ 9,342
Fixtures and equipment	26,163	28,682
	35,505	38,024
Allowances for depreciation and amortization	(19,776)	(16,266)
	\$ 15,729	\$ 21,758

The Company leases all of its stores under operating leases, many of which contain renewal options, for periods ranging from five to twenty-five years, with the majority being ten years. Most leases also provide for payment of operating expenses and real estate taxes. Some also provide for additional rent based on a percentage of sales.

Net rental expense was as follows:

	2001	Fiscal Year 2000	1999
	<i>(in thousands)</i>		
Minimum rentals	\$121,634	\$118,029	\$108,818
Contingent rentals	1,911	2,372	2,957
	\$123,545	\$120,401	\$111,775

Future minimum rental payments required under all leases that have initial or remaining non-cancelable lease terms in excess of one year at February 2, 2002 are as follows:

	Operating Leases	Capital Leases
	<i>(in thousands)</i>	
2002	\$110,183	\$ 6,512
2003	110,851	3,188
2004	100,960	1,873
2005	85,459	1,873
2006	67,764	1,800
Thereafter	197,145	15,374
Total minimum payments required	<u>\$672,362</u>	30,620
Less: amounts representing interest		16,409
Present value of minimum lease payments		14,211
Less: current portion		4,711
Long-term capital lease obligations		\$ 9,500

Note 8. Benefit Plans

401(k) Savings Plan

The Company offers a 401(k) Savings Plan to eligible employees meeting certain age and service requirements. This plan permits participants to contribute up to 20% of their salary, including bonuses, up to the maximum allowable by Internal Revenue Service regulations. Participants are immediately vested in their voluntary contributions plus actual earnings thereon. Participant vesting of the Company's matching and profit sharing contribution is based on the years of service completed by the participant. Participants are fully vested upon the completion of four years of service. All participant forfeitures of non-vested benefits are used to reduce the Company's contributions in future years. Total expense related to the Plan was \$921,000, \$943,000, and \$962,000 in fiscal 2001, 2000, and 1999, respectively.

Stock Option Plans

The Company has four employee stock option plans, the 1986 Stock Option Plan, the 1994 Stock Option Plan, the 1998 Stock Option Plan and the 1999 Stock Option Plan (the "Plans"). The Compensation Committee of the Board of Directors may grant options to acquire shares of common stock to employees of the Company and its subsidiaries at the fair market value of the common stock on the date of grant. Under the Plans, options generally become exercisable commencing one year from the date of grant in increments of 25% per year with a maximum term of ten years. Options authorized for issuance under the Plans totaled 12.3 million. At February 2, 2002, of the 10.8 million options remaining authorized for issuance under the Plans, 5.4 million have been granted and are outstanding, 2.7 million of which were vested and exercisable. Options available for future grants at February 2, 2002 and February 3, 2001 were 2.0 million and 2.6 million, respectively.

Under the terms of the Camelot merger agreement, all options issued under the Camelot 1998 Stock Option Plan (the "Camelot Plan") were converted to Trans World options. The Camelot Plan provided for the granting of either incentive stock options or nonqualified stock options to purchase shares of the Company's common stock. Vesting of the options was originally over a four-year period with a maximum term of ten years. Based on the terms of the Camelot Plan, vesting was accelerated based on the market performance of the Company's common stock whereby 50% of the options vested on March 13, 1998. The remaining 50% vested on April 22, 1999 in connection with the merger. At February 2, 2002, 77,900 options were outstanding and exercisable. The Company stopped issuing stock options under the Camelot Stock Option Plan as of April 22, 1999.

The following table summarizes information about the stock options outstanding under the Plans and the Camelot Plan at February 2, 2002:

Exercise Price Range	Outstanding			Exercisable	
	Shares	Average Remaining Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$ 1.21 - \$ 2.67	805,724	4.1	\$ 1.58	805,724	\$ 1.58
2.68 - 5.33	402,089	4.1	4.16	402,089	4.16
5.34 - 10.67	1,349,300	9.0	8.91	55,875	9.30
10.68 - 13.33	2,133,625	7.0	11.26	1,216,131	11.14
13.34 - 16.00	519,450	7.2	15.18	139,975	15.09
16.01 - 18.67	244,800	6.2	17.81	184,390	17.81
\$18.68 - \$23.75	2,000	6.8	23.75	1,500	23.75
Total	<u>5,456,988</u>	6.8	\$ 9.40	<u>2,805,684</u>	\$ 8.00

Notes to Consolidated Financial Statements

Trans World Entertainment Corporation and Subsidiaries

Note 8. Benefit Plans (cont'd)

The Company also has a stock option plan for non-employee directors (the "1990 Plan"). Options under this plan are granted at an exercise price determined by the Compensation Committee of the Board of Directors. Under the 1990 Plan, options generally become exercisable commencing one year from the date of grant in increments of 25% per year with a maximum term of ten years. As of February 2, 2002, there were 750,000 options authorized for issuance and 268,000 options have been granted and are outstanding, 226,998 of which were vested and exercisable. There are 383,645 shares of common stock reserved for possible future option grants under the 1990 Plan.

Under the terms of the Camelot merger agreement, all options issued under the Camelot Outside Director Stock Option Plan (the "Camelot Director Plan") were converted to Trans World options. As of February 2, 2002, there were 4,750 options outstanding and exercisable under the Camelot Director Plan. The Company no longer issues options under the Camelot Director Plan.

The following table summarizes information about the stock options outstanding under the two Director Plans at February 2, 2002:

Exercise Price Range	Outstanding			Exercisable	
	Shares	Average Remaining Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$ 1.19 - \$ 2.67	40,500	4.4	\$ 1.72	40,500	\$ 1.72
2.68 - 5.33	117,000	4.3	3.41	117,000	3.41
5.34 - 8.00	9,000	0.2	6.27	9,000	6.27
8.01 - 10.67	69,000	8.1	9.61	43,500	9.84
10.68 - 13.33	28,250	7.3	11.93	15,000	11.87
\$13.34 - \$15.12	9,000	6.2	15.12	6,748	15.12
Total	272,750	5.5	\$ 6.09	231,748	\$ 5.32

The following tables summarize activity under the Stock Option Plans:

	Employee Stock Option Plans			Director Stock Option Plans		
	Number of Shares Subject To Option	Option Price Range Per Share	Weighted Average Exercise Price	Number of Shares Subject To Option	Option Price Range Per Share	Weighted Average Exercise Price
Balance January 30, 1999	4,902,019	\$0.75-\$26.67	\$ 7.79	285,500	\$1.19-\$15.12	\$ 5.34
Granted	1,501,000	10.00-15.25	13.42	29,000	12.22-12.96	12.45
Exercised	(1,194,899)	0.75-17.79	7.65	(19,000)	10.92	10.92
Canceled	(143,733)	0.75-17.79	9.65	(10,000)	12.22	12.22
Balance January 29, 2000	5,064,387	\$1.21-\$26.67	\$ 9.44	285,500	\$1.19-\$15.12	\$ 5.45
Granted	1,633,800	8.25-12.06	10.34	58,716	0.00-10.94	7.52
Exercised	(259,673)	1.20-10.92	3.12	(21,216)	0.00-3.68	1.30
Canceled	(1,427,310)	1.21-26.67	11.47	(33,375)	3.36-15.12	9.28
Balance February 3, 2001	5,011,204	\$1.21-\$23.75	\$ 9.48	289,625	\$1.18-\$15.12	\$ 4.95
Granted	1,175,700	8.18-8.95	8.93	31,764	0.00-8.95	4.23
Exercised	(160,453)	1.21-5.25	2.97	(47,139)	0.00-6.27	2.37
Canceled	(569,463)	3.96-18.25	10.93	(1,500)	12.96-15.12	14.58
Balance February 2, 2002	5,456,988	\$1.21-\$23.75	\$ 9.40	272,750	\$1.18-\$15.12	\$ 6.09

Note 8. Benefit Plans (cont'd)

The per share weighted-average fair value of the stock options granted during fiscal 2001, 2000, and 1999 was \$2.68, \$3.57, and \$5.01, respectively, using the Black Scholes option pricing model, with the following weighted-average assumptions:

2001 – expected dividend yield 0.0%, risk-free interest rate of 4.40%, expected life of five years and stock volatility of 57%;

2000 – expected dividend yield 0.0%, risk-free interest rate of 5.20%, expected life of five years and stock volatility of 62%;

1999 – expected dividend yield 0.0%, risk-free interest rate of 6.47%, expected life of five years and stock volatility of 72%.

The Company applies APB Opinion No. 25, “Accounting for Stock Issued to Employees”, in accounting for its Plans and, accordingly, no compensation cost has been recognized for its stock options in the financial statements for employee stock options, which are issued at the closing stock price on the day of grant. During fiscal 2001, 2000, and 1999, the Company recognized expenses of \$150,000, \$165,000, and \$64,000, respectively, for stock options issued to non-employee directors at an exercise price below the closing stock price on the date of grant. Had the Company determined compensation cost for employee stock options based on fair value in accordance with SFAS No. 123, the Company’s net income would have been reduced to the pro forma amounts indicated below:

	2001	Fiscal Year 2000	1999
	<i>(in thousands, except per share amounts)</i>		
Net income, as reported	\$16,791	\$40,150	\$61,393
Basic earnings per share, as reported	\$ 0.40	\$ 0.84	\$ 1.17
Diluted earnings per share, as reported	\$ 0.39	\$ 0.83	\$ 1.15
Pro forma net income	\$12,732	\$35,369	\$57,621
Pro forma basic earnings per share	\$ 0.30	\$ 0.74	\$ 1.10
Pro forma diluted earnings per share	\$ 0.30	\$ 0.73	\$ 1.08

Restricted Stock Plan

Under the 1990 Restricted Stock Plan, the Compensation Committee of the Board of Directors is authorized to grant awards for up to 900,000 restricted shares of common stock to executive officers and other key employees of the Company and its subsidiaries. The shares are issued as restricted stock and are held in the custody of the Company until all vesting restrictions are satisfied. If conditions or terms under which an award is granted are not satisfied, the shares are forfeited. Shares begin to vest under these grants after three years and are fully vested after five years, with vesting criteria that includes continuous employment until applicable vesting dates have expired. As of February 2, 2002, a total of 325,000 shares have been granted, of which 195,000 of these shares had vested and 85,000 shares with an unamortized unearned compensation balance of \$593,000, had been forfeited. Unearned compensation is recorded at the date of award, based on the market value of the shares, and is included as a separate component of shareholders’ equity and is amortized over the applicable vesting period. The amount amortized to expense in fiscal 2001, 2000, and 1999, net of the impact of forfeitures, was approximately \$128,000, \$7,000, and \$66,000, respectively. At February 2, 2002, outstanding awards and shares available for grant totaled 45,000 and 660,000, respectively.

Supplemental Executive Retirement Plan

The Company maintains a non-qualified Supplemental Executive Retirement Plan (“SERP”) for certain executive officers of the Company. The SERP, which is unfunded, provides eligible executives defined pension benefits that supplement benefits under other retirement arrangements. The annual benefit amount is based on salary at the time of retirement and number of years of service. The Company accounts for the SERP in accordance with the provisions of SFAS No. 87, “Employers’ Accounting for Pensions”. For fiscal 2001, 2000, and 1999,

Notes to Consolidated Financial Statements

Trans World Entertainment Corporation and Subsidiaries

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Note 8. Benefit Plans (cont'd)

net periodic pension costs recognized under the plan totaled approximately \$488,000, \$492,000, and \$481,000, respectively. The accumulated benefit obligation for the SERP, which is included in accrued expenses and other in the consolidated balance sheet, was approximately \$6.0 million and \$3.9 million at February 2, 2002 and February 3, 2001, respectively. The accumulated benefit obligation and net periodic pension costs are determined utilizing actuarial assumptions, including a discount rate of 7% and 7.75% for fiscal 2001 and fiscal 2000, respectively. In addition, an intangible asset, which is included in other assets in the consolidated balance sheet, to reflect the excess of the accumulated benefit obligation over the fair value of plan assets, net of accrued pension costs, of approximately \$3.9 million and \$2.3 million was recorded at February 2, 2002 and February 3, 2001, respectively.

Note 9. Shareholders' Equity

On January 7, 2000, the Board of Directors approved a stock repurchase plan authorizing the purchase of up to 5.0 million shares of the Company's common stock. During fiscal 2000, the Board of Directors approved the repurchase of up to an additional 10.0 million shares. As of February 2, 2002, the Company had purchased 12.8 million of the 15.0 million shares authorized by the Board, at a total cost of \$117.4 million. At February 2, 2002 and February 3, 2001, the Company held 12,884,752 and 10,568,432 shares, respectively, in treasury stock.

Note 10. Related Party Transactions

The Company leases its 168,400 square foot distribution center/office facility in Albany, New York from Robert J. Higgins, its Chairman, Chief Executive Officer and largest shareholder, under three capitalized leases that expire in the year 2015. The original distribution center/office facility was constructed in 1985. A 77,100 square foot distribution center expansion was completed in October 1989 on real property adjoining the existing facility. A 19,100 square foot expansion was completed in September 1998 adjoining the existing facility.

Under the three capitalized leases, dated April 1, 1985, November 1, 1989 and September 1, 1998 (the "Leases"), the Company paid Mr. Higgins an annual rent of \$1.7 million in fiscal 2001 and 2000 and \$1.6 million in fiscal 1999. On January 1, 2002, the aggregate rental payment increased in accordance with the biennial increase in the Consumer Price Index, pursuant to the provisions of each lease. Effective January 1, 2004, and every two years thereafter, the rental payment increases in accordance with the biennial increase in the Consumer Price Index, pursuant to the provisions of the lease. None of the leases contains any real property purchase option at the expiration of its term. Under the terms of the Leases, the Company pays all property taxes, insurance and other operating costs with respect to the premises. Mr. Higgins' obligation for principal and interest on his underlying indebtedness relating to the real property is approximately \$1.1 million per year.

The Company leases two of its retail stores from Mr. Higgins under long-term operating leases. Under the first store lease, annual rent payments were \$40,000 in fiscal 2001, 2000, and 1999. Under the second store lease, annual rent payments were \$35,000 in fiscal 2001, 2000, and 1999. Under the terms of the leases, the Company pays property taxes, maintenance and a contingent rental if a specified sales level is achieved. Total additional charges for both locations, including contingent rent, was approximately \$11,100, \$14,700, and \$17,700 in fiscal 2001, 2000, and 1999, respectively.

The Company regularly utilizes privately chartered aircraft owned or partially owned by Mr. Higgins. Under an unwritten agreement with Quail Aero Services of Syracuse, Inc., a corporation in which Mr. Higgins is a one-third shareholder, the Company paid \$70,000, \$75,000, and \$110,000 for chartered aircraft services in fiscal 2001, 2000, and 1999, respectively. The Company also charters an aircraft from Crystal Jet, a corporation wholly-owned by Mr. Higgins. Payments to Crystal Jet aggregated \$91,000, \$85,000, and \$64,000 in fiscal 2001, 2000, and 1999, respectively. The Company also charters an aircraft from Richmor Aviation, an unaffiliated corporation that leases an aircraft owned by Mr. Higgins. Payments to Richmor Aviation in fiscal 2001, 2000, and 1999 were \$289,000, \$217,000, and \$325,000, respectively. The Company believes that the charter rates and terms are as favorable to the Company as those generally available to it from other commercial charters.

Note 10. Related Party Transactions (cont'd)

During 2000, the Company made loans aggregating \$443,000 and \$258,000 to John J. Sullivan, the Company's Executive Vice President and Chief Financial Officer, and Bruce J. Eisenberg, the Company's Executive Vice President – Real Estate, respectively. The loans were in connection with income taxes due on the vesting of restricted stock. The full principal amount of the loans was outstanding on February 2, 2002. The loans bear interest at a rate of 5.88% per annum.

Mike Solow, a member of the Company's Board of Directors, is a partner of the law firm Kaye Scholer LLP, which rendered legal services to the Company in the amount of \$552,000. The Company did not utilize Kaye Scholer's services prior to 2001.

Note 11. Quarterly Financial Information (Unaudited)

	2001	Fiscal 2001 Quarter Ended			
		2/02/02	11/03/01	8/04/01	5/05/01
		<i>(in thousands, except per share amounts)</i>			
Sales	\$1,388,032	\$511,013	\$273,361	\$294,561	\$309,097
Gross profit	452,776	162,109	88,885	98,667	103,115
Net income (loss)	16,791	34,512	(11,646)	(3,998)	(2,077)
Basic earnings (loss) per share	\$ 0.40	\$ 0.83	\$ (0.28)	\$ (0.10)	\$ (0.05)
Diluted earnings (loss) per share	\$ 0.39	\$ 0.82	\$ (0.28)	\$ (0.10)	\$ (0.05)

	2000	Fiscal 2000 Quarter Ended			
		2/03/01	10/28/00	7/29/00	4/29/00
		<i>(in thousands, except per share amounts)</i>			
Sales	\$1,414,589	\$553,366	\$265,597	\$285,510	\$310,116
Gross profit	497,235	190,693	91,701	103,997	110,844
Net income (loss)	40,150	40,097	(15,596)	6,667	8,982
Basic earnings (loss) per share	\$ 0.84	\$ 0.91	\$ (0.32)	\$ 0.14	\$ 0.18
Diluted earnings (loss) per share	\$ 0.83	\$ 0.89	\$ (0.32)	\$ 0.14	\$ 0.18

**Report of KPMG LLP
Independent Auditors**

*Trans World Entertainment
Corporation and Subsidiaries*

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The Board of Directors and Shareholders
Trans World Entertainment Corporation:

We have audited the accompanying consolidated balance sheets of Trans World Entertainment Corporation and subsidiaries as of February 2, 2002 and February 3, 2001, and the related consolidated statements of income, shareholders' equity and cash flows for each of the fiscal years in the three-year period ended February 2, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Trans World Entertainment Corporation and subsidiaries as of February 2, 2002 and February 3, 2001, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended February 2, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP

Albany, New York
March 14, 2002

Board of Directors and Executive Officers



Robert J. Higgins
Chairman and
Chief Executive Officer



Dean S. Adler
Director; Principal,
Lubert/Adler Partners, L.P.



George W. Dougan†
Director; Director,
BankNorth Group, Inc.



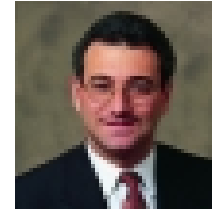
Martin E. Hanakat
Director; Chief
Executive Officer,
The Sports Authority



Isaac Kaufman*†
Director;
Chief Financial Officer,
Advanced Medical
Management Inc.



Dr. Joseph G. Morone*
Director; President,
Bentley College



Michael Solow*
Director; Partner,
Kaye Scholer LLP



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Executive Officers

Bruce J. Eisenberg

Executive Vice President – Real Estate

Fred L. Fox

*Executive Vice President –
Merchandising and Marketing*

John J. Sullivan

Executive Vice President and Chief Financial Officer

Corporate Office

38 Corporate Circle, Albany, NY 12203

Independent Auditors

KPMG LLP, Albany, NY

Transfer Agent

Mellon Investor Services, New York, NY

Annual Meeting

June 20, 2002, 10:00 a.m., The Desmond, Albany, NY

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2002 and quarterly reports on Form 10-Q may be obtained by shareholders without charge from the following:

Chief Financial Officer
Trans World Entertainment Corporation
38 Corporate Circle, Albany, NY 12203

*Member of the Audit Committee

†Member of the Compensation
Committee

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