

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.

R.J. Higgins



fye

fye

MOVIES MUSIC GAMES

MUSIC MOVIES GAMES MORE

Streets of Southpoint
Durham, North Carolina

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.

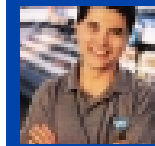




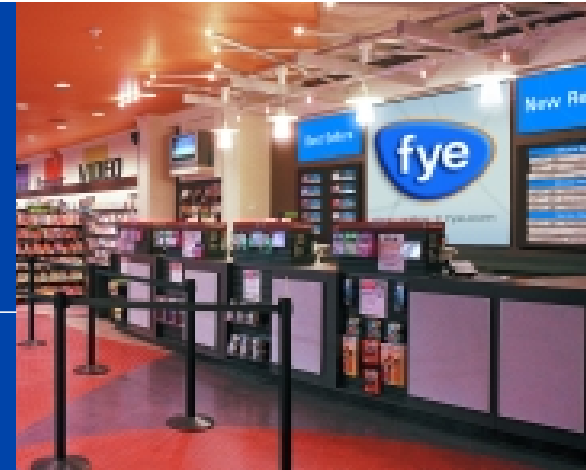
never stop playing™

music • movies • games • more

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

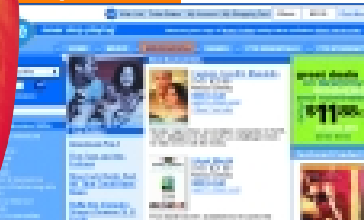


Never Stop Playing

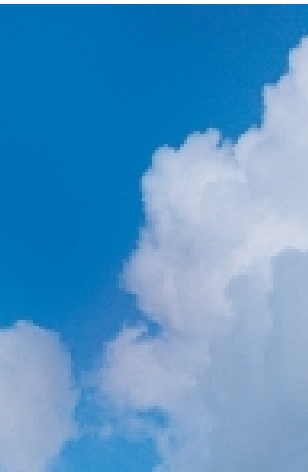
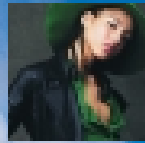
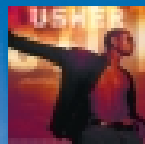
FYE is more than a name and a logo. It is a distinct personality and a unique market positioning. It is an expression of freedom, helping people explore and enjoy entertainment in new and exciting ways. It is an unequalled commitment to our customers – demonstrating that we love our products as much 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.

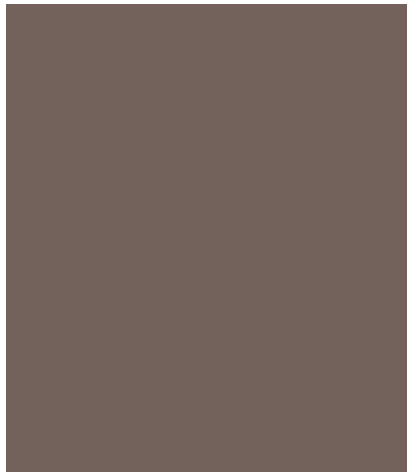
As part of a comprehensive initiative, we unveiled proprietary in-store technologies: the FYE LVS and the FYE Kiosk – enabling customers to find, try and buy entertainment as never before. We also built an advanced database infrastructure, enabling us to support a strategic, comprehensive customer relationship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

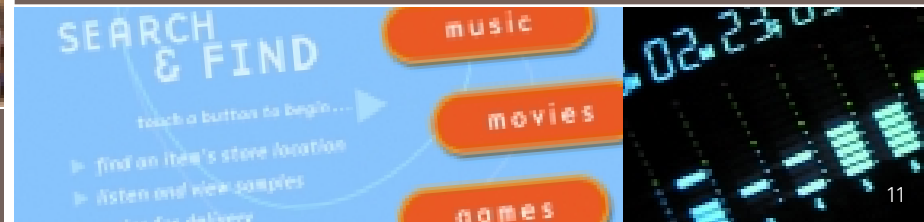
Another one-of-a-kind technology, the FYE Kiosk is an interactive database workstation for researching and sampling. Customers can search by artist, song title, actor and beyond – quickly finding and sampling the products they're looking for. In fact, if a particular title is not in-stock at that store, 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.

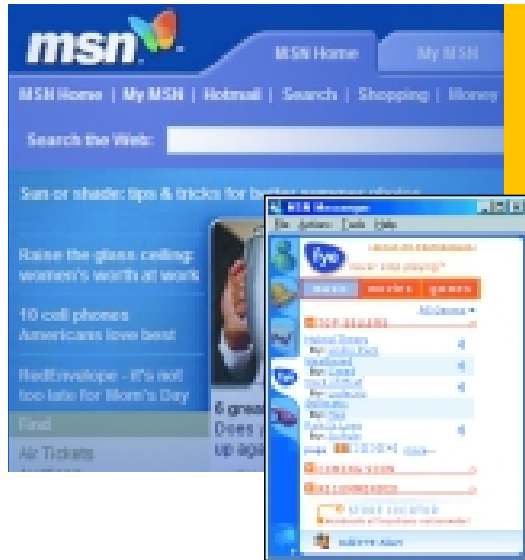
Broadband Backbone

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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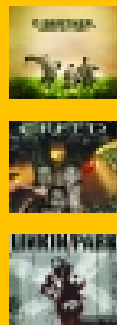
Microsoft

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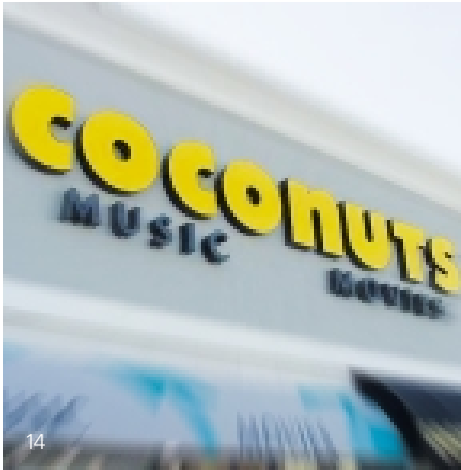
The FYE brand gained tremendous exposure and value – aligning with one of the best-known brands in the world.

Powered By Microsoft

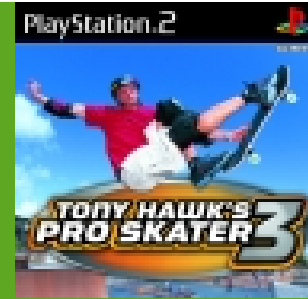
On the technology side, FYE will benefit from Microsoft technologies in-store and online. Our in-store technologies, LVS and Kiosk, are integrated with Microsoft XP operating system, Windows media formats and technologies for consumer registration and personalization. fye.com likewise incorporates Microsoft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

Advancing Relationships

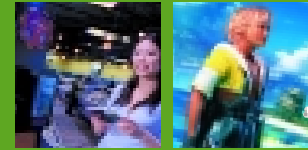
Microsoft technologies also contributed to our database infrastructure, an integral technology component of the FYE Backstage Pass loyalty program and our overall CRM initiative. This includes advanced solutions for electronic security and personalization – enabling us to better serve our customers,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



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



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.