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TRANS WORLD
ENTERTAINMENT
ANNUAL REPORT

Chairman's Letter

I am pleased to report that 2013 was another profitable year for Trans World Entertainment, our third consecutive year of profitable results. In the midst of significant industry change, we continue to transform and solidify our business with solid operating results, continued financial strength, a strong store portfolio and sound strategy.

Solid Operating results

Despite a disappointing 5% comp sales decline, we were able to deliver solid operating results in 2013. Our gross margin rate remained strong and helped us deliver operating income of \$10.4 million. During 2013, Selling, General and Administrative expenses increased as a percentage of sales to 34.9% from 34.6% in 2012 as we made investments in people and technology to support our growth initiatives. Our results reflect our commitment to delivering profitability while using our financial resources to invest in strategies to grow our business in the future.

Continued Financial Strength

By any measure, our financial position has never been stronger. We ended 2013 with over \$190 million in working capital. Our current ratio is over 3x and our debt to equity is less than 1.0%. Our strong financial position provided our Board of Directors the opportunity to institute a \$22 million stock repurchase program. While continuing to repurchase shares, in the first quarter of 2014, we paid a \$0.50 per share special dividend, the second dividend in our company's history. In total, we have returned over \$30 million to our shareholders in the last two years.

Strong Store Portfolio

The Company's real estate strategy is to maintain a core group of profitable locations, while evaluating opportunities for new locations. Our discipline in adhering to our strict profitability goals has provided us a strong store portfolio. In addition, in 2013, we opened or relocated 14 stores, our most store openings since 2006. New and relocated stores present an additional opportunity for us to grow our business.

Sound Strategy

Our financial flexibility and working capital provides us with resources to fund our growth initiatives. While our trend and electronics categories have risen to over 20% of our product mix, in 2013, we began an initiative to accelerate the transformation of our merchandise mix and shopping experience, both in our stores and online, by adding new entertainment related products to complement our core product lines and appeal to a broader customer base.

The Company has completed the initial phase of the initiative. The initial phase involved gathering data to analyze our current business, identify potential categories, suppliers, and partnerships for new businesses and to evaluate opportunities to enhance the current shopping experience in our stores. Information was gathered through customer interviews, focus groups and surveys, interviews with store associates and retail industry experts and a review of the current competitive environment.

The next phase of the plan will be to test and, if successful, implement strategies to transform our stores based on an analysis of the data collected in the first phase. Our mission is to be our customer's preferred entertainment retailer by offering the entertainment enthusiast a wide selection of entertainment related products and services in a retail environment that promotes a fun discovery experience.

2014 will be another exciting year for our company. We are prepared to utilize our financial resources and strong store portfolio to further our transformation to a total entertainment destination for our customers, while delivering on our commitment to enhance shareholder value.

In an increasingly competitive retail environment, the successful companies will be those which have the vision to be innovative and discipline to insist on performance. I am grateful for the continued support of our shareholders, board of directors, customers, vendors and our associates. I will be relying on your continued support to help Trans World evolve and thrive.



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED FEBRUARY 1, 2014**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT
FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER: 0-14818**

TRANS WORLD ENTERTAINMENT CORPORATION

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of incorporation or organization)

14-1541629
(I.R.S. Employer Identification Number)

**38 Corporate Circle
Albany, New York 12203
(Address of principal executive offices, including zip code)
(518) 452-1242
(Registrant's telephone number, including area code)**

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in the Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by a check mark whether the Registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's Knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or an amendment to this Form 10-K.

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Act).

Large accelerated filer Accelerated filer Non-accelerated filer Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of August 2, 2013, 32,645,967 shares of the Registrant's Common Stock, excluding 25,520,605 shares of stock held in Treasury, were issued and outstanding. The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Registrant's Common Stock on August 2, 2013 as reported on the National Market tier of The NASDAQ Stock Market, Inc. was \$89,514,476. Shares of Common Stock held by the Company's controlling shareholder, who controlled approximately 44.2% of the outstanding Common Stock, have been excluded for purposes of this computation. Because of such shareholder's control, shares owned by other officers, directors and 5% shareholders have not been excluded from the computation. As of March 31, 2014, there were 32,072,955 shares of Common Stock Issued and Outstanding.

Documents of Which Portions Are Incorporated by Reference

Parts of the Form 10-K into Which Portion of Documents are Incorporated

Proxy Statement for Trans World Entertainment Corporation's
July 2, 2014 Annual Meeting of Shareholders
to be filed on or about June 4, 2014
Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm on
Management's Annual Report on Internal Controls

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PART I

Cautionary Statement for Purposes of the “Safe Harbor” Provisions of the Private Securities Litigation Reform Act of 1995

This document includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to the Trans World Entertainment Corporation’s (“the Company’s”) future prospects, developments and business strategies. The statements contained in this document that are not statements of historical fact may include forward-looking statements that involve a number of risks and uncertainties.

We have used the words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, and similar terms and phrases, including references to assumptions, in this document to identify forward-looking statements. These forward-looking statements are made based on management’s expectations and beliefs concerning future events and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond the Company’s control, that could cause actual results to differ materially from those matters expressed in or implied by these forward-looking statements. The following factors are among those that may cause actual results to differ materially from the Company’s forward-looking statements.

- new product introductions (“hit releases”);
- accelerated declines in compact disc (“CD”) and DVD industry sales;
- highly competitive nature of the retail entertainment business;
- new technology, including digital distribution;
- competitive pricing;
- current economic conditions;
- dependence on key employees and the ability to hire new employees;
- the Company’s level of debt and related restrictions and limitations;
- future cash flows;
- availability of real estate;
- vendor terms;
- interest rate fluctuations;
- adverse publicity;
- product liability claims and
- changes in laws.

The reader should keep in mind that any forward-looking statement made by us in this document, or elsewhere, pertains only as of the date on which we make it. New risks and uncertainties come up from time-to-time and it’s impossible for us to predict these events or how they may affect us. In light of these risks and uncertainties, you should keep in mind that any forward-looking statements made in this report or elsewhere might not occur.

In addition, the preparation of financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”) requires us to make estimates and assumptions. These estimates and assumptions affect:

- the reported amounts and timing of revenue and expenses,
- the reported amounts and classification of assets and liabilities, and
- the disclosure of contingent assets and liabilities.

Actual results may vary from our estimates and assumptions. These estimates and assumptions are based on historical results, assumptions that we make, as well as assumptions by third parties.

Item 1. BUSINESS

Company Background

Trans World Entertainment Corporation, which, together with its consolidated subsidiaries, is referred to herein as “the Company”, “we”, “us” and “our”, was incorporated in New York in 1972. We own 100% of the outstanding common stock of Record Town, Inc., through which our principal operations are conducted. The Company operates retail stores and three e-commerce sites and is one of the largest specialty retailers of entertainment products, including video, music, electronics, trend, video games and related products in the United States.

Stores and Store Concepts

As of February 1, 2014, the Company operated 339 stores totaling approximately 2.0 million square feet in the United States, the District of Columbia and the U.S. Virgin Islands.

Mall Stores

As of February 1, 2014, the Company operated 293 mall-based stores, predominantly under the f.y.e. (“For Your Entertainment”) brand, including:

f.y.e. stores. The Company operated 283 traditional mall-based stores. f.y.e. stores average about 5,600 square feet and carry a full complement of entertainment products, including video, music, electronics, trend, video games and related products.

Video only stores. The Company operated 10 video only stores, predominately under the Suncoast Motion Pictures brand. These stores specialize in the sale of video and related accessories. They average about 2,500 square feet.

Freestanding Stores

As of February 1, 2014, the Company operated 46 freestanding stores predominantly under the f.y.e. brand. They carry a full complement of entertainment products, including video, music, electronics, trend, video games and related products and are located in freestanding, strip center and downtown locations. The freestanding stores average approximately 9,200 square feet.

E-Commerce Sites

The Company operates three retail web sites including www.fye.com, www.wherehouse.com and www.secondspin.com. FYE.com is our flagship site and carries a broad selection of new and used DVDs, Blu-Ray, CDs, and Games. SecondSpin.com is a leading seller of used CDs, DVDs, Blu-Ray, and Games online and carries one of the largest catalogs of used media available online. Wherehouse.com offers a broad selection of new and used CDs, DVDs, Blu-Ray, and Games.

Merchandise Categories

Net sales by merchandise category as a percentage of total net sales for Fiscal 2013, 2012 and 2011 were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Video	45.1%	43.8%	42.3%
Music	28.8	30.9	34.2
Trend	12.3	10.1	8.6
Electronics	9.2	10.5	9.7
Video games	4.6	4.7	5.2
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Financial information about industry segments required by this item is included in the Company’s Consolidated Financial Statements, which are incorporated herein by reference.

Business Environment

Based primarily on statistical information obtained from Warner Brothers Home Entertainment and Nielsen Sound Scan (“SoundScan”); physical video and music represent an approximately \$11 billion industry nationwide. Video and music accounted for approximately 74% of the Company’s net sales in Fiscal 2013 versus 75% of sales in Fiscal 2012.

According to statistics obtained from Warner Brothers Home Entertainment, overall video industry physical retail sales in 2013 were \$7.6 billion compared to \$8.3 billion in 2012, a decrease of 8.3%. Industry DVD retail sales decreased 13.0% in 2013 compared to 2012, while Blu-ray sales increased 4.5%.

According to statistical information from SoundScan, the total number of music albums sold, including CD and digital albums, decreased 9.3% to approximately 286 million units in 2013. Excluding digital albums, in Fiscal 2013, album sales decreased 14.5% from Fiscal 2012 to approximately 163 million units.

Competition

Physical media sales have suffered from the shift of content to digital distribution and specialty retailers have been impacted by the proliferation of mass merchants (e.g., Wal-Mart and Target), electronics superstores (e.g., Best Buy), and online retailers (e.g., Amazon) that offer entertainment products at discounted prices and collectively have gained a larger share of the market. As a result of such competition, the number of specialty and independent retailers has decreased dramatically due to their reliance on sales of physical product. The Company has diversified its products and taken other measures to position itself competitively within its industry. The Company believes it effectively competes in the following ways:

- Location and convenience: a strength of the Company is its convenient store locations that are often the exclusive retailer in regional shopping centers offering a full complement of entertainment products;
- Selection and assortment: the Company maintains a high in-stock position in a large assortment of products, particularly DVDs, Blu-ray and CDs;
- Marketing: the Company uses email blasts, social networking, newspaper and radio, and in-store visual displays to market to consumers;
- Customer service: the Company offers personalized customer service in its stores;
- Diversified product mix: the company is expanding the range of product offerings in our existing non-media businesses.

Seasonality

The Company’s business is seasonal, with its fourth fiscal quarter constituting the Company’s peak selling period. In Fiscal 2013, the fourth quarter accounted for approximately 35% of annual net sales. In anticipation of increased sales activity in the fourth quarter, the Company purchases additional inventory and hires seasonal associates to supplement its core store sales and distribution center staffs. If, for any reason, the Company’s net sales were below seasonal norms during the fourth quarter, the Company’s operating results could be adversely affected. Quarterly sales can also be affected by the timing of new product releases, new store openings or closings and the performance of existing stores.

Advertising

The Company makes use of visual displays including in-store signage and external banners. It uses a mass-media marketing program, including newspaper and radio advertisements, as well as sending email blasts and social networking. Certain vendors from whom the Company purchases merchandise offer advertising allowances, of varying duration and amount, to promote their merchandise.

Suppliers and Purchasing

The Company purchases inventory from approximately 500 suppliers. In Fiscal 2013, 60% of purchases were made from ten suppliers including Twentieth Century Fox Video, Paramount Home Entertainment, RED Distribution, Sony Music Entertainment, Sony Pictures Home Entertainment, Universal Music Group Distribution, Universal Studios Home Entertainment, Buena Vista Home Entertainment, Warner Home Video and Warner, Elektra, Atlantic Corp Group. The Company does not have material long-term purchase contracts; rather, it purchases products from its suppliers on an order-by-order basis. Historically, the Company has not experienced difficulty in obtaining satisfactory sources of supply and management believes that it will continue to have access to adequate sources of supply.

Trade Customs and Practices

Under current trade practices with large suppliers, retailers of music and video products are generally entitled to return unsold merchandise they have purchased in exchange for other merchandise carried by the suppliers. The four largest music suppliers charge a related merchandise return penalty or return handling fee. Most manufacturers and distributors of video products do not charge a return penalty or handling fee. Under current trade practices with large suppliers, retailers of electronics, trend, video games and related products may receive markdown support from suppliers to help clear discontinued or slow turning merchandise. Merchandise return policies and other trade practices have not changed significantly in recent years. The Company generally adapts its purchasing policies to changes in the policies of its largest suppliers.

Employees

As of February 1, 2014, the Company employed approximately 3,200 people, of whom approximately 1,200 were employed on a full-time basis. Others were employed on a part-time basis. The Company hires seasonal sales and distribution center employees during its fourth quarter peak selling season to ensure continued levels of personalized customer service and in-stock position. Assistant store managers, store managers, district managers and regional managers are eligible to receive incentive compensation based on the sales and/or profitability of stores for which they are responsible. Sales support managers are generally eligible to receive incentive compensation based on achieving Company performance targets. None of the Company's employees are covered by collective bargaining agreements and management believes that the Company enjoys favorable relations with its employees.

Trademarks

The trademarks, f.y.e. for your entertainment, Suncoast Motion Pictures and Saturday Matinee are registered with the U.S. Patent and Trademark Office and are owned by the Company. We believe that our rights to these trademarks are adequately protected. We hold no material patents, licenses, franchises or concessions; however, our established trademarks and trade names are essential to maintaining our competitive position in the entertainment retail industry.

Information Systems

The Company utilizes primarily IBM AS400 technology to run its management information systems, including its merchandising, distribution and financial systems. Management believes its systems contribute to enhanced customer service and operational efficiency, as well as provide the ability to monitor critical performance indicators versus plans and historical results.

Available Information

The Company's headquarters are located at 38 Corporate Circle, Albany, New York 12203, and its telephone number is (518) 452-1242. The Company's corporate website address is www.twec.com. The Company makes available, free of charge, its Exchange Act Reports (Forms 10-K, 10-Q, 8-K

and any amendments thereto) on its web site as soon as practical after the reports are filed with the Securities and Exchange Commission (“SEC”). The public may read and copy any materials the Company files with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. This information can be obtained from the site <http://www.sec.gov>. The Company’s Common Stock, \$0.01 par value, is listed on the NASDAQ National Market under the trading symbol “TWMC”. The Company’s fiscal year end is the Saturday closest to January 31. The Fiscal 2013 (“Fiscal 2013”) year ended on February 1, 2014; Fiscal 2012 (“Fiscal 2012”) year ended on February 2, 2013; and Fiscal 2011 (“Fiscal 2011”) year ended on January 28, 2012. Fiscal 2012 consisted of 53 weeks. All other periods presented were 52 weeks.

Item 1A. RISK FACTORS

The following is a discussion of certain factors, which could affect the financial results of the Company.

The Company’s results of operations are affected by the availability of new products.

The Company’s business is affected by the release of “hit” music and video titles, which can create fluctuations in sales. It is not possible to determine the timing of these fluctuations or the future availability of hit titles. The Company is dependent upon the major music and movie producers to continue to produce hit products. To the extent that new hit releases are not available, or not available at prices attractive to consumers, or, if manufacturers fail to introduce or delay the introduction of new products, the Company’s results of operations may be adversely affected.

The Company’s results of operations are affected by the continued declines in the video and music industries.

The video and music retailing industries are mature industries and have experienced declines in recent years. Physical video and music represent our largest product categories in terms of sales and have been impacted by new distribution channels, including digital distribution and internet fulfillment. As a result, the Company has had negative comparable store sales for the past five years.

The Company’s results of operations may suffer if the Company does not accurately predict consumer acceptance of new product or distribution technologies.

The entertainment industry is characterized by changing technology, evolving format standards, new and enhanced product introductions. These characteristics require the Company to respond quickly to technological changes and understand the impact of these changes on customers’ preferences. If the Company is unable to participate in new product or distribution technologies, its results of operations may suffer. Specifically, CD and DVD formats have experienced a continuous decline as digital forms of music and video content have become more prevalent. If the Company does not timely adapt to these changing technologies or sufficiently focus on the other categories, operating results could significantly suffer.

Increased competition from existing retailers, including internet retailers, could adversely affect the Company’s results of operations.

The Company competes with a wide variety of entertainment retailers, including deep-discount retailers, mass merchandisers, consumer electronics outlets, internet retailers and independent operators, some of whom have greater financial and other resources than the Company and frequently sell their product at discounted prices or with added value.

In addition, the Company's success depends on our ability to positively differentiate ourselves from other retailers. The retail business is highly competitive. In the past the Company has been able to compete successfully by differentiating our customer shopping experience by creating an attractive value proposition through a careful combination of price, merchandise assortment, convenience, customer service and marketing efforts. Customer perceptions regarding our stores, our in-stock position and deep assortment of product are also factors in our ability to compete. No single competitive factor is dominant, and actions by our competitors on any of these factors could have an adverse effect on our sales, gross profit and expenses. If we fail to continue to positively differentiate ourselves from our competitors, our results of operations could be adversely affected.

The Company's business is influenced by general economic conditions.

The Company's performance is subject to general economic conditions and their impact on levels of discretionary consumer spending. General economic conditions impacting discretionary consumer spending include, among others, wages and employment, consumer debt, reductions in net worth, residential real estate and mortgage markets, taxation, fuel and energy prices, interest rates, consumer confidence and other macroeconomic factors.

Consumer purchases of discretionary items, such as our merchandise, generally decline during recessionary periods and other periods where disposable income is adversely affected. A downturn in the economy affects retailers disproportionately, as consumers may prioritize reductions in discretionary spending, which could have a direct impact on purchases of our merchandise and adversely impact our results of operations. In addition, reduced consumer spending may drive us and our competitors to offer additional products at promotional prices, which would have a negative impact on gross profit.

Disruption of global capital and credit markets may have a material adverse effect on the Company's liquidity and capital resources.

Distress in the financial markets has in the past and can in the future result in extreme volatility in security prices, diminished liquidity and credit availability. There can be no assurance that our liquidity will not be affected by changes in the financial markets and the global economy or that our capital resources will at all times be sufficient to satisfy our liquidity needs.

Historically, we have experienced declines and we may continue to experience fluctuation in our level of sales, results from operations and operating cash flow.

A variety of factors has historically affected, and will continue to affect, our comparable stores sales results and profit margins. These factors include general regional and national economic conditions; competition; actions taken by our competitors; consumer trends and preferences; new product introductions and changes in our product mix; timing and effectiveness of promotional events and weather. The Company's comparable store sales may decline further than they did in Fiscal 2013. Also, they may vary from quarter to quarter as our business is highly seasonal in nature. Our highest sales and operating income historically occur during the fourth fiscal quarter, which is due in part to the holiday selling season. The fourth quarter generated approximately 35% of our net sales for Fiscal 2013. Any decrease in our fourth quarter sales, whether due to a slow holiday selling season, unseasonable weather conditions, economic conditions or otherwise, could have a material adverse effect on our business, financial condition and operating results for the entire fiscal year. There is no assurance that we will achieve positive levels of sales and earnings growth, and any decline in our future growth or performance could have a material adverse effect on our business and results of operations.

Failure to open new stores or renew existing leases in profitable stores may limit our earnings.

Historically, the Company's growth has come from adding stores. The Company opens new stores if it finds desirable locations and is able to negotiate suitable lease terms for profitability. A lack of new store growth may impact the Company's ability to increase sales and earnings. The

Company opened six new stores in Fiscal 2013. Likewise, the Company regularly renews leases at existing locations if those stores are profitable. Failure to renew these leases may impact the Company's earnings. See Item 2: Properties, for timing of lease expirations.

A change in one or more of the Company's vendors' policies or the Company's relationship with those vendors could adversely affect the Company's results of operations.

The Company is dependent on its vendors to supply merchandise in a timely and efficient manner. If a vendor fails to deliver on its commitments, whether due to financial difficulties or other reasons, the Company could experience merchandise shortages that could lead to lost sales.

The majority of the Company's purchases come from ten major suppliers. As is standard in its industry, the Company does not maintain long-term contracts with its suppliers but instead makes purchases on an order-by-order basis. If the Company fails to maintain customary trade terms or enjoy positive vendor relations, it could have an adverse effect on the Company's results of operations.

If the Company's vendors fail to provide marketing and merchandising support at historical levels, the Company's results of operations could be adversely affected.

The manufacturers of entertainment products have typically provided retailers with significant marketing and merchandising support for their products. As part of this support, the Company receives cooperative advertising and other allowances from these vendors. These allowances enable the Company to actively promote and merchandise the products it sells at its stores and on its websites. If the Company's vendors fail to provide this support at historical levels, the Company's results of operations could be negatively impacted.

Parties with whom the Company does business may be subject to insolvency risks or may otherwise become unable or unwilling to perform their obligations to the Company.

The Company is a party to contracts, transactions and business relationships with various third parties, including vendors, suppliers, service providers and lenders, pursuant to which such third parties have performance, payment and other obligations to the Company. In some cases, the Company depends upon such third parties to provide essential products, services or other benefits, including with respect to store and distribution center locations, merchandise, advertising, software development and support, logistics, other agreements for goods and services in order to operate the Company's business in the ordinary course, extensions of credit, credit card accounts and related receivables, and other vital matters. Economic, industry and market conditions could result in increased risks to the Company associated with the potential financial distress or insolvency of such third parties. If any of these third parties were to become subject to bankruptcy, receivership or similar proceedings, the rights and benefits of the Company in relation to its contracts, transactions and business relationships with such third parties could be terminated, modified in a manner adverse to the Company, or otherwise impaired. The Company cannot make any assurances that it would be able to arrange for alternate or replacement contracts, transactions or business relationships on terms as favorable as the Company's existing contracts, transactions or business relationships, if at all. Any inability on the part of the Company to do so could negatively affect the Company's cash flows, financial condition and results of operations.

If we fail to protect the security of personal information about our customers, we could be subject to costly government enforcement actions or private litigation and our reputation could suffer.

The nature of our business involves the receipt and storage of personal information about our customers. If we experience a data security breach, we could be exposed to government enforcement actions and private litigation. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to stop shopping at our stores. Such events could lead to lost sales and adversely affect our results of operations.

Loss of key personnel or the inability to attract, train and retain qualified employees could adversely affect the Company's results of operations.

The Company believes that its future prospects depend, to a significant extent, on the services of its executive officers. Our future success will also depend on our ability to attract and retain qualified key personnel. The loss of the services of certain of the Company's executive officers and other key management personnel could adversely affect the Company's results of operations.

Mr. Higgins has advised the Company's Board of Directors of plans to step down as Chief Executive Officer of the Company upon the completion of a process to choose his successor. Following his retirement as CEO, Mr. Higgins will remain as Chairman of the Board. The Board of Directors has formed a committee to oversee the search for a new CEO. The Committee has engaged an outside search firm and will consider both internal and external candidates.

In addition to our executive officers, the Company's business is dependent on our ability to attract, train and retain a large number of qualified team members. Many of those team members are employed in entry-level or part-time positions with historically high turnover rates. Our ability to meet our labor needs while controlling our costs is subject to external factors such as unemployment levels, health care costs and changing demographics. If we are unable to attract and retain adequate numbers of qualified team members, our operations, customer service levels and support functions could suffer. Those factors, together with increased wage and benefit costs, could adversely affect our results of operations.

Our Chairman and Chief Executive Officer owns approximately 45.5% of the outstanding Common Stock. Therefore, he has significant influence and control over the outcome of any vote of the Company's Shareholders.

Robert J. Higgins serves as Chairman of the Board of the Company and its Chief Executive Officer and owns approximately 45.5% of the outstanding Common Stock of the Company, as of March 31, 2014 and there are no limitations on his acquiring shares in the future. Accordingly, Mr. Higgins has significant influence over the election of our directors, the appointment of new management and the opposition of actions requiring shareholder approval, such as adopting amendments to our articles of incorporation and approving mergers or sales of all or substantially all of our assets. Such concentration of ownership and substantial voting influence may have the effect of delaying or preventing a change of control, even if a change of control is in the best interest of all shareholders. There may be instances in which the interest of Mr. Higgins may conflict or be perceived as being in conflict with the interest of a holder of our securities or the interest of the Company.

Failure to comply with legal and regulatory requirements could adversely affect the Company's results of operations.

The Company's business is subject to a wide array of laws and regulations. Significant legislative changes that impact our relationship with our workforce (none of which is represented by unions) could increase our expenses and adversely affect our operations. Examples of possible legislative changes impacting our relationship with our workforce include changes to an employer's obligation to recognize collective bargaining units, the process by which collective bargaining units are negotiated or imposed, minimum wage requirements, and health care mandates.

Our policies, procedures and internal controls are designed to comply with all applicable laws and regulations, including those imposed by the Securities and Exchange Commission and the NASDAQ Global Market, as well as applicable employment laws. Additional legal and regulatory requirements increase the complexity of the regulatory environment in which we operate and the related cost of compliance. Failure to comply with such laws and regulations may result in damage to our reputation, financial condition and market price of our stock.

We could be materially and adversely affected if our distribution center is disrupted.

We operate a distribution center in Albany, New York. We ship approximately 74% of our merchandise inventory through our distribution center. If our distribution center is destroyed or disrupted for any reason, including weather, fire, labor, or other issues we could incur significantly higher costs and longer lead times associated with distributing our products to our stores during the time it takes to reopen or replace the center.

We maintain business interruption insurance to protect us from the costs relating to matters such as a shutdown, but our insurance may not be sufficient, or the insurance proceeds may not be timely paid to us, in the event of a shutdown.

The Company's stock price has experienced and could continue to experience volatility and could decline, resulting in a substantial loss on your investment.

Our stock price has experienced, and could continue to experience in the future, substantial volatility as a result of many factors, including global economic conditions, broad market fluctuations and public perception of the prospects for music and the home video industry. Changes in our comparable store net sales could also affect the price of our Common Stock. Failure to meet market expectations, particularly with respect to comparable store sales, net revenues, operating margins and earnings per share, would likely result in a decline in the market price of our stock.

In addition, an active trading market for our Common Stock may not be sustained, which could affect the ability of our stockholders to sell their shares and could depress the market price of their shares. The stock market in general and the market for video and music industry related stocks in particular, has been highly volatile. For example, the closing price of our Common Stock at quarter ends has fluctuated between \$2.12 and \$5.12 from January 30, 2012 to March 31, 2014. Investors in our Common Stock may experience a decrease in the value of their stock, including decreases unrelated to our operating performance or prospects.

The failure to maintain a minimum closing share price of \$1.00 per share of our Common Stock could result in the delisting of our shares on the NASDAQ Global Market, which would harm the market price of the Company's Common Stock.

In order to retain our listing on the NASDAQ Global Market we are required by NASDAQ to maintain a minimum bid price of \$1.00 per share. Our stock price is currently above \$1.00 and has been since October 6, 2009. However, in the event that our stock did close below the minimum bid price of \$1.00 per share for any 30 consecutive business days, we would regain compliance if our Common Stock closed at or above \$1.00 per share for 10 consecutive days during the 180 days immediately following failure to maintain the minimum bid price. If we are unable to do so, our stock could be delisted from the NASDAQ Global Market, transferred to a listing on the NASDAQ Capital Market, or delisted from the NASDAQ markets altogether. The failure to maintain our listing on the NASDAQ Global Market could harm the liquidity of the Company's Common Stock and could have an adverse effect on the market price of our Common Stock.

Item 1B. UNRESOLVED SEC COMMENTS

None.

Item 2. PROPERTIES**Retail Stores**

As of February 1, 2014, the Company operated 339 stores, of which 338 stores are under operating leases, some of which have renewal options. The Company owns 1 store. The majority of the leases provide for the payment of fixed monthly rent and expenses for maintenance, property taxes and insurance, while others provide for the payment of monthly rent based on a percentage of sales. Certain leases provide for additional rent based on store sales in excess of specified levels. The

following table lists the leases due to expire in each of the years shown as of the fiscal year-end, assuming any renewal options are not exercised:

<u>Year</u>	<u>No. of Leases</u>	<u>Year</u>	<u>No. of Leases</u>
2014	181	2018	12
2015	85	2019	3
2016	28	2020 and beyond	9
2017	20		

As leases expire, the Company will evaluate the decision to exercise renewal rights or obtain new leases for the same or similar locations based on store profitability.

Corporate Offices and Distribution Center Facility

The Company leases its Albany, New York distribution facility and corporate office space from its largest shareholder and Chairman and Chief Executive Officer under three capital lease arrangements that extend through 2015. These leases are at fixed rent with provisions for biennial increases based on increases in the Consumer Price Index. The Company incurs all property taxes, insurance and maintenance costs. The office portion of the facility is approximately 39,800 square feet and the distribution center portion is approximately 141,500 square feet.

The Company believes that its existing distribution facility is adequate to meet the Company's planned business needs. Shipments from the distribution facility to the Company's stores provide approximately 74% of all merchandise shipment requirements to stores. Stores are serviced by common carriers chosen on the basis of geography and rate considerations. The balance of the stores' merchandise requirements is satisfied through direct shipments from vendors.

Item 3. LEGAL PROCEEDINGS

The Company is subject to various 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.

Item 4. MINE SAFETY DISCLOSURES

None.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information. The Company's Common Stock trades on the NASDAQ Stock Market under the symbol "TWMC." As of March 28, 2014, there were 382 shareholders of record. The following table sets forth high and low last reported sale prices for each fiscal quarter during the period from February 1, 2011 through March 28, 2014.

	Closing Sales Prices	
	High	Low
2012		
1st Quarter	\$2.50	\$2.12
2nd Quarter	\$3.10	\$2.20
3rd Quarter	\$3.99	\$3.00
4th Quarter.....	\$3.90	\$3.36
2013		
1st Quarter	\$4.40	\$3.36
2nd Quarter	\$5.24	\$4.27
3rd Quarter	\$5.12	\$4.26
4th Quarter.....	\$4.57	\$3.92
2014		
1st Quarter (through March 28, 2014).....	\$4.54	\$3.68

On March 28, 2014, the last reported sale price on the Common Stock on the NASDAQ National Market was \$3.68.

Dividend Policy: In the fourth quarter of Fiscal 2012, the Company declared and paid a special cash dividend of \$0.47 per common share. This was a one-time special dividend and we cannot guarantee any future dividends. On November 27, 2012, Wells Fargo Bank, National Association (the "Administrative Agent") and certain other parties to the amended credit facility consented to the use of a portion of the proceeds received from the sale of real property owned by Record Town, Inc. to pay the special cash dividend.

In the first quarter of Fiscal 2014, the Company declared and paid a special cash dividend of \$0.50 per common share. This was a one-time special dividend and we cannot guarantee any future dividends. The declaration and payment of any future dividends will be at the sole discretion of the board of directors. We did not pay cash dividends in Fiscal 2013 and Fiscal 2011. The Company's amended credit facility contains certain restrictions related to the payment of cash dividends, including limiting the amount of dividends to \$5.0 million annually and not allowing borrowings under the amended facility for the six months before or six months after the dividend payment. On March 5, 2014, Wells Fargo Bank, National Association (the "Administrative Agent") and certain other parties to the amended credit facility agreed consented to the payment of the special cash dividend.

Unregistered Sales of Equity Securities and Use of Proceeds: During the third quarter of fiscal 2013, the Company determined that participants in the Trans World Entertainment Corporation 401(k) Savings Plan (the "401(k) Plan") had invested in Company Common Stock (the "Common Stock") under the 401(k) Plan that were not registered under the Securities Act of 1933. Purchases of Common Stock were made on the open market by the 401(k) Plan. Under applicable federal securities laws, certain participants may have a right to rescind their investment and require the Company to repurchase its Common Stock for an amount equal to the price paid for the Common Stock (or if the Common Stock has been sold, to receive damages for any loss that was incurred on the sale), plus interest. Additionally, the Company may be subject to civil and other penalties by regulatory authorities. Generally, the federal statute of limitations applicable to securities rescission rights is one year from the date of acquisition of the security. Investments by the 401(k) Plan in the

Common Stock during the preceding twelve months represented 83,389 shares of the Company's Common Stock with an aggregate purchase price equal to \$438,626. Based on the March 28, 2014 closing price for the Company's Common Stock, the maximum potential payment for claims based on these rights is under \$250,000.

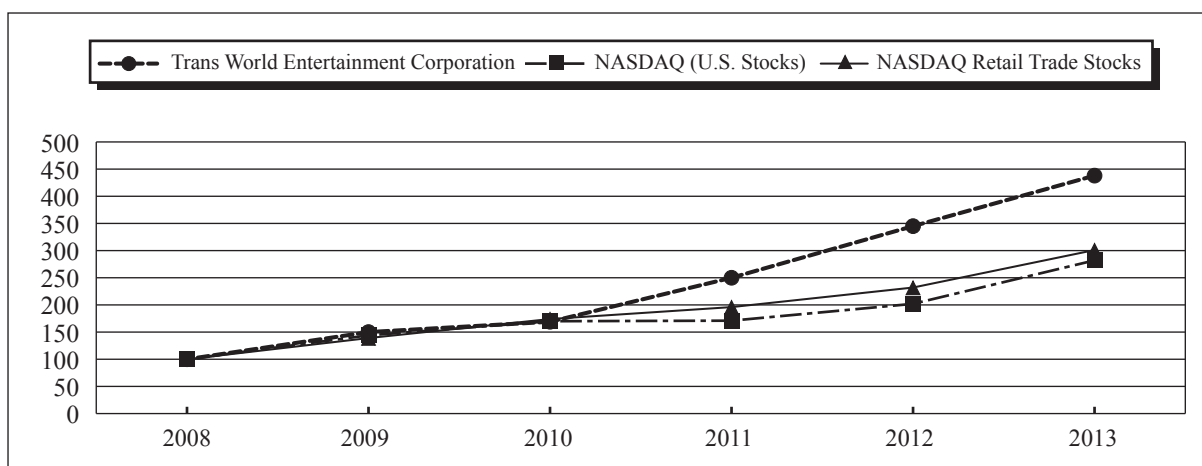
The failure to register the shares of Common Stock under the 401(k) Plan was inadvertent and the Company intends to make a registered rescission offer to eligible plan participants in the first quarter of fiscal 2014. Based on the current market price of the Company's Common Stock, the Company does not believe the potential liability for rescission claims is material to the Company's financial condition or results of operations.

The Common Stock investment option was closed to participants effective November 15, 2013. No further Common Stock purchases by the 401(k) Plan will be permitted.

Five-Year Performance Graph:

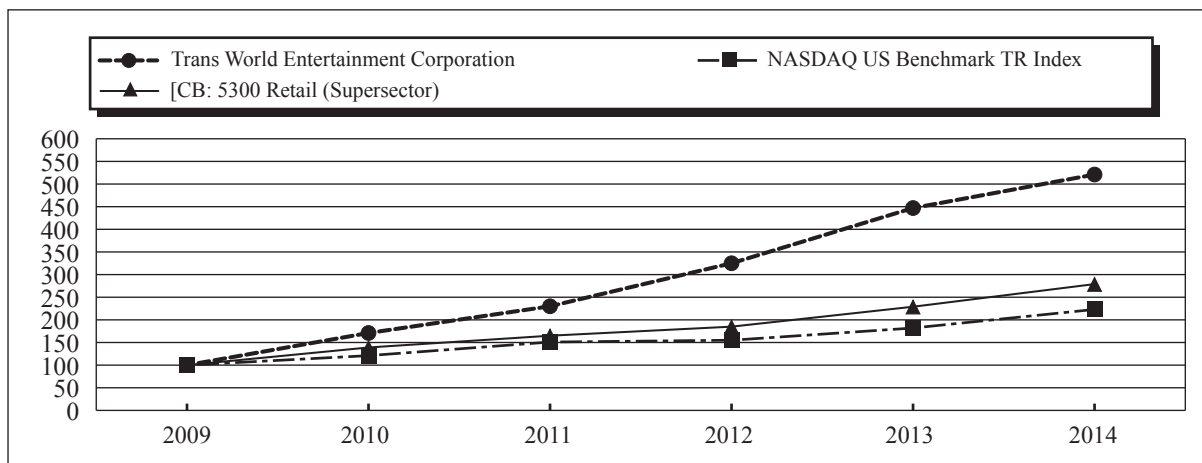
As a result of a change in the total return data made available to us through our vendor provider, our performance graphs going forward will be using a comparable index provided by NASDAQ OMX Global Indexes. Please note, information for the NASDAQ National Market Retail Trade Stocks index is provided only from December 31, 2008 through December 31, 2013, the last day this data was available by our third-party index provider.

The following line graph reflects a comparison of the cumulative total return of the Company's Common Stock from December 31, 2008 through December 31, 2013 with the NASDAQ Index (U.S. Stocks) and with the NASDAQ National Market Retail Trade Stocks index. Because none of the Company's leading competitors has been an independent publicly traded company over the period, the Company has elected to compare shareholder returns with the published index of retail companies compiled by NASDAQ. All values assume a \$100 investment on December 31, 2008, and that all dividends were reinvested.



	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Trans World Entertainment Corporation	100	150	169	250	345	438
NASDAQ (U.S. Stocks)	100	144	170	171	202	282
NASDAQ Retail Trade Stocks	100	139	174	196	232	301

The following line graph reflects a comparison of the cumulative total return of the Company's Common Stock from January 31, 2009 through January 31, 2014 with the NASDAQ US Benchmark TR Index and with ICB: 5300 Retail (Supersector) index. Because none of the Company's leading competitors has been an independent publicly traded company over the period, the Company has elected to compare shareholder returns with the published index of retail companies compiled by NASDAQ. All values assume a \$100 investment on January 31, 2009, and that all dividends were reinvested.



	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Trans World Entertainment Corporation	100	171	230	325	447	521
NASDAQ US Benchmark TR Index	100	121	151	182	229	223
ICB: 5300 Retail (Supersector)	100	139	165	185	229	279

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected Statements of Operations and Balance Sheet data for the five fiscal years ended February 1, 2014 and is derived from the Company's audited Consolidated Financial Statements. The fiscal year ended February 2, 2013 consisted of 53 weeks while all the other fiscal years of the Company presented consisted of 52 weeks. This information should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes and other financial information included herein, including Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Fiscal Year Ended				
	February 1, 2014	February 2, 2013	January 28, 2012	January 29, 2011	January 30, 2010
	(\$ and square footage in thousands, except store count data)				
STATEMENT OF OPERATIONS DATA:					
Net sales.....	\$393,659	\$458,544	\$542,589	\$652,416	\$813,988
Cost of sales	<u>245,755</u>	<u>286,422</u>	<u>344,435</u>	<u>433,036</u>	<u>552,327</u>
Gross profit.....	147,904	172,122	198,154	219,380	261,661
Selling, general and administrative expenses.....	137,529	158,572	192,653	244,749	310,710
Gain on sale of asset	—	(22,750)	—	—	—
Asset impairment charges	—	—	—	1,973	3,643
Income (loss) from operations.....	10,375	36,300	5,501	(27,342)	(52,692)
Interest expense	2,010	2,384	3,429	3,557	2,910
Other income.....	<u>(80)</u>	<u>(66)</u>	<u>(240)</u>	<u>(211)</u>	<u>(168)</u>
Income (loss) before income taxes.....	8,445	33,982	2,312	(30,688)	(55,434)
Income tax expense (benefit).....	<u>168</u>	<u>248</u>	<u>150</u>	<u>275</u>	<u>(12,985)</u>
Net income (loss).....	<u>\$ 8,277</u>	<u>\$ 33,734</u>	<u>\$ 2,162</u>	<u>\$ (30,963)</u>	<u>\$ (42,449)</u>
Basic earnings (loss) per share.....	<u>\$ 0.25</u>	<u>\$ 1.07</u>	<u>\$ 0.07</u>	<u>\$ (0.99)</u>	<u>\$ (1.35)</u>
Weighted average number of shares outstanding — basic.....	<u>32,584</u>	<u>31,577</u>	<u>31,520</u>	<u>31,417</u>	<u>31,370</u>
Diluted earnings (loss) per share	<u>\$ 0.25</u>	<u>\$ 1.06</u>	<u>\$ 0.07</u>	<u>\$ (0.99)</u>	<u>\$ (1.35)</u>
Weighted average number of shares — diluted.....	<u>32,862</u>	<u>31,878</u>	<u>32,036</u>	<u>31,417</u>	<u>31,370</u>
Cash dividend paid per share.....	—	\$ 0.47	—	—	—
	Fiscal Year Ended				
	February 1, 2014	February 2, 2013	January 28, 2012	January 29, 2011	January 30, 2010
	(\$ and square footage in thousands, except store count data)				
BALANCE SHEET DATA (at the end of the period):					
Total assets.....	\$312,417	\$315,240	\$313,120	\$348,724	\$394,566
Current portion of long-term debt and capital lease obligations.....	1,066	936	1,503	1,363	1,974
Long-term obligations	938	2,004	4,009	5,511	6,874
Shareholders' equity	\$191,796	\$180,760	\$161,846	\$161,798	\$193,353
OPERATING DATA:					
Store count (open at end of period):					
Mall stores.....	293	304	324	376	449
Freestanding stores.....	46	54	66	84	108
Total stores	339	358	390	460	557
Comparable store sales decreases ⁽¹⁾	(5%)	(1%)	(2%)	(4%)	(10%)
Total square footage in operation (Year end)	2,030	2,209	2,562	3,149	3,794
Total square footage in operation (Average)	2,134	2,362	2,913	3,543	4,424

⁽¹⁾ A store is included in comparable store sales calculations at the beginning of its thirteenth full month of operation. Stores relocated, expanded or downsized are excluded from comparable store sales if the change in square footage is greater than 20% until the thirteenth full month following relocation, expansion or downsizing. Closed stores that were open for at least thirteen months are included in comparable store sales through the month immediately preceding the month of closing.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations provide information that the Company's management believes necessary to achieve an understanding of its financial condition and results of operations. 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; releases by the music, video, and video game industries 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. The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with "Item 6: Selected Consolidated Financial Data" and the Consolidated Financial Statements and related notes included elsewhere in this report.

As of February 1, 2014, the Company operated 339 stores totaling approximately 2.0 million square feet in the United States, the District of Columbia and the U.S. Virgin Islands. In Fiscal 2013, the Company's net sales decreased as compared to Fiscal 2012 as a result of lower average store count and a 5% decrease in comparable store sales.

The U.S. entertainment retailing industry is a mature industry and has experienced declines in recent years. Physical Video and Music represent our primary product categories in terms of sales and both categories have been impacted by new distribution channels, including digital distribution and internet fulfillment. As a result, the Company has had negative comparable store sales for the past five years. To mitigate or lessen the impact these changes have had, the Company has focused on the following areas in an effort to improve its business:

Improving Product Mix and Creating Value for our Customers

The Company tailors the product mix of its stores toward regional tastes in order to optimize the productivity of its stores, seeking to serve key customer segments within each store. We have also focused on creating a stronger value statement for our customers in our two largest categories of video and music to drive additional traffic into the stores and improve customer conversion rates, while offering products in other categories to drive additional sales and broaden our customer base.

Store Portfolio Evaluation

During Fiscal 2013 and Fiscal 2012, the Company closed 25 and 33 stores, respectively. The Company's real estate strategy is to maintain our core group of profitable locations, while evaluating opportunities for new locations in new and existing malls. The Company opened 6 stores in Fiscal 2013 and one store in Fiscal 2012. The Company also relocated 8 stores in existing malls in Fiscal 2013. The Company expects to open additional new stores in the future while continuing to reduce the number of store closings.

The Company closes stores when minimum operating thresholds are not achieved or upon lease expiration when either renewal is not available or management determines that renewal is not in the Company's best interest. The Company has signed short-term lease agreements for desirable locations, which enables us to negotiate rents that are responsive to the then-current sales environment. We will continue to close stores that do not meet our profitability goals, a process which could result in asset impairments and store closure costs. Continued reduction in the number of stores would lower total sales and gross profit of the Company.

The Company believes that there is near-term opportunity for improving the productivity of existing stores. The environment in which our stores operate is intensely competitive and includes Internet-based retailers and mass merchants. We believe a specialty retailer that can differentiate

itself by offering a distinctive assortment and customer experience, and that can operate efficiently, will be better positioned to maintain or grow market share. Therefore, we remain dedicated to enhancing our product mix through adding unique product lines, improving the operational efficiency of our stores and offering our customers a rewarding shopping experience.

Expanding Customer Base

To strengthen customer loyalty, the Company offers its customers the option of signing up for a Backstage Pass card which provides an additional 10% discount off of everyday selling prices on nearly all products in addition to other value added benefits members receive through the program in exchange for a membership fee. The Company also co-sponsors events in many of its stores to provide various segments of its customers an opportunity to experience entertainment and shop for unique and exclusive products based on their particular interests.

Key Performance Indicators

Management monitors a number of key performance indicators to evaluate its performance, including:

Net Sales and Comparable Store Sales: The Company measures the rate of comparable store net sales change. A store is included in comparable store net sales calculations at the beginning of its thirteenth full month of operation. Stores relocated, expanded or downsized are excluded from comparable store sales if the change in square footage is greater than 20% until the thirteenth full month following relocation, expansion or downsizing. Closed stores that were open for at least thirteen months are included in comparable store sales through the month immediately preceding the month of closing. The Company further analyzes net sales by store format and by product category.

Cost of Sales and Gross Profit: Gross profit is calculated based on the cost of product in relation to its retail selling value. Changes in gross profit are impacted primarily by net sales levels, mix of products sold, vendor discounts and allowances and distribution costs. The Company records its distribution, freight and obsolescence expenses in cost of sales. Distribution expenses include those costs associated with receiving, inspecting and warehousing merchandise and costs associated with product returns to vendors.

Selling, General and Administrative (“SG&A”) Expenses: Included in SG&A expenses are payroll and related costs, occupancy charges, general operating and overhead expenses and depreciation charges (excluding those related to distribution operations, as discussed in Note 2 of Notes to the Consolidated Financial Statements in this report). SG&A expenses also include fixed assets write-offs associated with store closures, if any, and miscellaneous income and expense items, other than interest. The Company recorded miscellaneous income items for Fiscal 2013, 2012, and 2011 in the amount of \$6.1 million, \$6.0 million, and \$4.7 million, respectively.

Balance Sheet and Ratios: The Company views cash, net inventory investment (merchandise inventory less accounts payable) and working capital (current assets less current liabilities) as indicators of its financial position. See Liquidity and Capital Resources for further discussion of these items.

Fiscal Year Ended February 1, 2014 (“Fiscal 2013”) Compared to Fiscal Year Ended February 2, 2013 (“Fiscal 2012”)

Net Sales. The following table sets forth a year-over-year comparison of the Company’s total net sales:

	2013	2012	2013 vs. 2012	
			\$	%
			(\$ in thousands)	
Net Sales	\$393,659	\$458,544	(\$64,885)	(14.2%)

The 14.2% net sales decline from the prior year is due to a 6.3% decline in average stores in operation, a 5.0% decline in comparable store net sales and 52 weeks in Fiscal 2013 versus 53 weeks in Fiscal 2012. Stores closed in Fiscal 2012 and Fiscal 2013 recorded sales of \$80.7 million in Fiscal 2012. While the Company believes a meaningful amount of sales was transferred to ongoing stores, there was a reduction of sales from store closings. Total product units sold in Fiscal 2013 decreased 11.9% and the average retail price for units sold decreased 2.7%.

Net sales by merchandise category for Fiscal 2013 and Fiscal 2012 were as follows:

	<u>2013</u> <u>Net Sales</u>	<u>%</u> <u>Total</u>	<u>2012</u> <u>Net Sales</u>	<u>%</u> <u>Total</u>	<u>Total %</u> <u>Net Sales</u> <u>Change</u>	<u>Comparable</u> <u>Store % Net</u> <u>Sales Change</u>
	(\$ in thousands)					
Video	\$177,540	45.1%	200,842	43.8%	(11.6%)	(2.7%)
Music	113,374	28.8	141,690	30.9	(20.0)	(11.3)
Trend	48,420	12.3	46,313	10.1	4.5	11.5
Electronics	36,217	9.2	48,147	10.5	(24.8)	(15.3)
Video games	18,108	4.6	21,552	4.7	(16.0)	1.6
Total	<u>\$393,659</u>	<u>100.0%</u>	<u>\$458,544</u>	<u>100.0%</u>	<u>(14.2%)</u>	<u>(5.0%)</u>

Video

The Company's stores offer a wide range of new and used DVDs and Blu-rays in a majority of its stores. Total net sales for Fiscal 2013 in the video category decreased 11.6% due to the lower average store count, and a 2.7% decrease in comparable store sales. Growth in Blu-ray was offset by declines in DVD.

According to Warner Home Video, total video sales in the United States declined 8.3% during the period corresponding with the Company's Fiscal 2013.

Music

The Company's stores offer a wide range of new and used CDs, music DVDs and vinyl across most music genres, including new releases from current artists as well as an extensive catalog of music from past periods and artists. Total net sales in the music category declined 11.3% on a comparable store sale basis in Fiscal 2013.

According to SoundScan, total CD unit sales in the United States declined 14.5% during the period corresponding with the Company's Fiscal 2013.

Trend

The Company's stores offer a selection of trend and apparel products that relate to theatrical releases, music, and gaming. The trend category increased 11.5% on a comparable store sales basis. Trend represented 12.3% of the Company's total net sales in Fiscal 2013 versus 10.1% in Fiscal 2012. The Company continues to take advantage of opportunities to strengthen our selection and shift our mix to growing categories of entertainment-related merchandise.

Electronics

The Company's stores offer a selection of complementary portable electronics and accessories to support our entertainment products. Total net sales in the electronics category decreased 15.3% on a comparable store sales basis. The decline in electronics is due to increased competition in headphones. Electronics represented 9.2% of the Company's total net sales in Fiscal 2013 versus 10.5% in Fiscal 2012.

Video games

During Fiscal 2013, the Company offered video games in approximately 92 stores. Comparable net sales in the games category increased 1.6%. Video games sales were driven by the release of new gaming consoles.

According to NPD, industry-wide video games sales were down 4.3% during the period corresponding with the Company's Fiscal 2013.

Gross Profit. The following table sets forth a year-over-year comparison of the Company's Gross Profit:

	<u>2013</u>	<u>2012</u>	<u>2013 vs. 2012</u>	
			<u>\$</u>	<u>%</u>
			(\$ in thousands)	
Gross Profit	\$147,904	\$172,122	(\$24,218)	(14.1%)
As a percentage of net sales.....	37.6%	37.5%		

The decline in gross profit was due to lower sales.

Selling, General and Administrative Expenses. The following table sets forth a year-over-year comparison of the Company's SG&A expenses:

	<u>2013</u>	<u>2012</u>	<u>2013 vs. 2012</u>	
			<u>\$</u>	<u>%</u>
			(\$ in thousands)	
Selling, general and administrative expenses.....	\$137,529	\$158,572	(\$21,043)	(13.3%)
As a percentage of net sales.....	34.9%	34.6%		

The \$21 million decrease in SG&A expenses is due to a \$14 million reduction in store expenses arising from the Company operating an average of 6.3% fewer stores and lower operating expenses in the ongoing stores, as well as a \$7 million reduction in incentive expenses. SG&A as a percentage of net sales increased 30 basis points from 34.6% in 2012 to 34.9% in 2013.

Gain on Sale of Asset. The Gain on Sale of Asset in Fiscal 2012 of \$22.8 million was due to the sale of real property in Miami, Florida. See Note 3, "Gain on Sale of Asset" in the Notes to the Consolidated Financial Statements for further discussion of the sale. We did not sell any assets during fiscal 2013.

Interest Expense. Interest expense in Fiscal 2013 was \$2.0 million compared to \$2.4 million in Fiscal 2012. The reduction in interest expense was due to lower costs associated with the Credit Facility as compared to the previous facility.

Other Income. Other income, which includes interest income, was \$80,000 in Fiscal 2013 compared to \$66,000 in Fiscal 2012.

Income Tax Expense. The following table sets forth a year-over-year comparison of the Company's income tax expense:

	<u>2013</u>	<u>2012</u>	<u>2013 vs. 2011</u>	
			<u>\$</u>	
			(\$ in thousands)	
Income tax expense.....	\$168	\$248	(\$80)	
Effective tax rate	2.0%	0.7%		

The Fiscal 2013 and 2012 income tax expense includes state taxes, adjustments to the reserve for uncertain tax positions and the accrual of interest. See Note 6 in the Notes to Consolidated Financial Statements for further detail.

Net Income. The following table sets forth a year-over-year comparison of the Company's net income:

	<u>2013</u>	<u>2012</u>	<u>2013 vs. 2012</u>
		(\$ in thousands)	\$
Net income.....	\$8,277	\$33,734	(\$25,457)
Net income as a percentage of net sales	2.1%	7.4%	

Net income for Fiscal 2013 decreased by \$25.5 million to \$8.3 million, as compared to \$33.7 million for Fiscal 2012 primarily due to the \$22.8 million gain on the sale of assets in Fiscal 2012, a reduction in store count and a 52-week fiscal year in Fiscal 2013 versus 53 weeks in Fiscal 2012.

**Fiscal Year Ended February 2, 2013 ("Fiscal 2012")
Compared to Fiscal Year Ended January 28, 2012 ("Fiscal 2011")**

Net Sales. The following table sets forth a year-over-year comparison of the Company's total net sales:

	<u>2012</u>	<u>2011</u>	<u>2012 vs. 2011</u>	
		(\$ in thousands)	\$	%
Net Sales	\$458,544	\$542,589	(\$84,045)	(15.5%)

The 15.5% net sales decline from prior year is due to a 13.9% decline in average stores in operation and a 1% decline in comparable store net sales. Stores closed in Fiscal 2011 and Fiscal 2012 recorded sales of \$120 million in 2011. While the Company believes a meaningful amount of sales was transferred to ongoing stores, there was a reduction of sales from store closings. Total product units sold in Fiscal 2012 decreased 12.7% and the average retail price for units sold decreased 3.4%.

Net sales by merchandise category for Fiscal 2012 and Fiscal 2011 were as follows:

	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>	<u>Total %</u>	<u>Comparable</u>
	Net Sales	Total	Net Sales	Total	Net Sales	Store % Net
	(\$ in thousands)				Change	Sales Change
Video	200,842	43.8%	\$229,256	42.3%	(12.4%)	4.0%
Music	141,690	30.9	185,305	34.2	(23.5)	(12.0)
Electronics	48,147	10.5	52,884	9.7	(9.0)	5.0
Trend	46,313	10.1	46,690	8.6	(0.8)	17.0
Video games.....	21,552	4.7	28,454	5.2	(24.3)	(15.0)
Total	<u>\$458,544</u>	<u>100.0%</u>	<u>\$542,589</u>	<u>100.0%</u>	<u>(15.5%)</u>	<u>(1.0%)</u>

Video

The Company's stores offer a wide range of new and used DVDs and Blu-rays in a majority of its stores. Total net sales for Fiscal 2012 in the video category decreased 12.4% due to the lower average store count, partially offset by a 4% increase in comparable store sales. The video category increased as a percentage of the Company's total net sales due to a comparable store sales increase compared to the total Company comparable store sales decline.

According to Warner Home Video, total video sales in the United States declined 5% during the period corresponding to the Company's Fiscal 2012.

Music

The Company's stores offer a wide range of new and used CDs and music DVDs across most music genres, including new releases from current artists as well as an extensive catalog of music from past periods and artists. Total net sales in the music category declined 12% on a comparable store sale basis in Fiscal 2012.

Net sales of CDs represented approximately 95% of total net sales in the music category during Fiscal 2012. The Company's annual CD unit sales decreased 23% in Fiscal 2012 due to the decrease in average store count and lower comparable store net sales. According to SoundScan, total CD unit sales in the United States declined 14% during the period corresponding with the Company's Fiscal 2012 due primarily to a lack of hit product compared to the prior year.

Electronics

The Company's stores offer a selection of complementary portable electronics and accessories to support our entertainment products. Total net sales in the electronics category increased 5% on a comparable store sales basis. During Fiscal 2012, the Company expanded its assortment and selection in the electronics category. Electronics represented 10.5% of the Company's total net sales in Fiscal 2012 versus 9.7% in Fiscal 2011.

Trend

The Company's stores offer a selection of trend and apparel products that relate to theatrical releases, music, and gaming. The trend category increased 17% on a comparable store sales basis. Trend represented 10.1% of the Company's total net sales in Fiscal 2012 versus 8.6% in Fiscal 2011.

Video games

During Fiscal 2012, the Company offered video games in approximately 100 stores. Comparable net sales in the games category declined 15%.

According to NPD, industry-wide video games sales were down 22% during the period corresponding with the Company's Fiscal 2012.

Gross Profit. The following table sets forth a year-over-year comparison of the Company's Gross Profit:

	<u>2012</u>	<u>2011</u>	<u>2012 vs. 2011</u>	
			<u>\$</u>	<u>%</u>
			(\$ in thousands)	
Gross Profit	\$172,122	\$198,154	(\$26,032)	(13.1%)
As a percentage of net sales.....	37.5%	36.5%		

Gross margin improved 100 basis points due to higher gross margin across all product categories attributable to improved inventory management.

Selling, General and Administrative Expenses. The following table sets forth a year-over-year comparison of the Company's SG&A expenses:

	<u>2012</u>	<u>2011</u>	<u>2012 vs. 2011</u>	
			<u>\$</u>	<u>%</u>
			(\$ in thousands)	
Selling, general and administrative expenses.....	\$158,572	\$192,653	(\$34,081)	(17.7%)
As a percentage of net sales.....	34.6%	35.5%		

The \$34 million decrease in SG&A expenses is due to a \$30 million reduction in store expenses arising from the Company operating an average of 13.9% fewer stores and lower operating expenses in the ongoing stores, as well as a \$4 million reduction in corporate overhead expenses. SG&A as a percentage of net sales decreased 90 basis points from 35.5% in 2011 to 34.6% in 2012.

Gain on Sale of Asset. The Gain on Sale of Asset in Fiscal 2012 of \$22.8 million was due to the sale of real property in Miami, Florida. See Note 3, "Gain on Sale of Asset" in the Notes to the Consolidated Financial Statements for further discussion of the sale. We did not sell any assets during fiscal 2011.

Interest Expense. Interest expense in Fiscal 2012 was \$2.4 million compared to \$3.4 million in Fiscal 2011. The reduction in interest expense was due to lower costs associated with the Second Amended Credit Facility as compared to the Amended Credit Facility.

Other Income. Other income, which includes interest income, was \$66,000 in Fiscal 2012 compared to \$240,000 in Fiscal 2011.

Income Tax Expense. The following table sets forth a year-over-year comparison of the Company's income tax expense:

	<u>2012</u>	<u>2011</u>	<u>2012 vs. 2011</u>
		(\$ in thousands)	\$
Income tax expense.....	\$248	\$150	\$98
Effective tax rate	0.7%	6.5%	

The Fiscal 2012 and 2011 income tax expense includes state taxes, adjustments to the reserve for uncertain tax positions and the accrual of interest. See Note 6 in the Notes to Consolidated Financial Statements for further detail.

Net Income. The following table sets forth a year-over-year comparison of the Company's net income:

	<u>2012</u>	<u>2011</u>	<u>2012 vs. 2011</u>
		(\$ in thousands)	\$
Net income.....	\$33,734	\$2,162	\$31,572
Net income as a percentage of net sales	7.4%	0.4%	

Net income for Fiscal 2012 increased by \$31.5 million to \$33.7 million, as compared to \$2.2 million for Fiscal 2011, primarily due to the \$22.8 million gain on the sale of assets, increased gross margin and a reduction in SG&A expenses.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Cash Flows: The Company's primary sources of working capital are cash provided by operations and borrowing capacity under its revolving credit facility. The Company's cash flows fluctuate from quarter to quarter due to various items, including seasonality of sales and earnings, merchandise inventory purchases and returns, the related terms on the purchases and capital expenditures. Management believes it will have adequate resources to fund its cash needs for the foreseeable future, including its capital spending, its seasonal increase in merchandise inventory and other operating cash requirements and commitments.

Management anticipates any cash requirements due to a shortfall in cash from operations will be funded by the Company's revolving credit facility, discussed hereafter. Cash flows from investing activities are expected to be comprised primarily of capital expenditures during fiscal 2014. Cash flows from financing activities are expected to be comprised primarily of payments on capital leases, payment of a special dividend and purchases of company shares under the share repurchase plan during Fiscal 2014. The Company does not expect any material changes in the mix (between equity and debt) or the relative cost of capital resources.

The following table sets forth a three-year summary of key components of cash flow and working capital:

	<u>2013</u>	<u>2012</u>	<u>2013 vs. 2012</u>	<u>2011</u>	<u>2012 vs. 2011</u>
			(\$ in thousands)		
Operating Cash Flows	\$ 7,308	\$ 35,633	\$(28,325)	\$ 16,771	\$ 18,862
Investing Cash Flows	(7,828)	25,706	(33,534)	(2,105)	27,811
Financing Cash Flows.....	(1,460)	(16,872)	15,412	(1,363)	15,509
Capital Expenditures.....	(7,828)	(3,351)	(4,477)	(2,105)	(1,246)
End of Period Balances:					
Cash and Cash Equivalents	131,002	132,982	(1,980)	88,515	44,467
Merchandise Inventory	150,167	155,429	(5,262)	191,327	(35,898)
Merchandise Inventory Per					
Square Foot	74.0	70.4	74.7		
Working Capital	194,311	189,149	5,162	164,295	24,854
Inventory turns	1.6	1.6	1.6		

During Fiscal 2013, cash flow from operations was \$7.3 million primarily due to net income of \$8.3 million. During Fiscal 2012, cash flow from operations was \$35.6 million primarily due to a \$35.9 million decrease in merchandise inventory and net income of \$11.0 million (excluding the impact of the one-time gain from the sales of real property) offset by a \$13.7 million reduction in accounts payable.

The Company monitors various statistics to measure its management of inventory, including inventory turnover (annual cost of sales divided by average merchandise inventory balances), inventory investment per square foot (merchandise inventory divided by total store square footage) and inventory leverage (accounts payable divided by merchandise inventory). Inventory turnover measures the Company's ability to sell merchandise and how many times it is replaced in a year. This ratio is important in determining the need for markdowns and planning future inventory levels and assessing customer response to our merchandise. Inventory turnover in Fiscal 2013 was 1.6, the same level as Fiscal 2012. Inventory investment per square foot measures the productivity of the inventory. It is important in determining if the Company has the appropriate level of inventory to meet customer demands while controlling its investment in inventory. Inventory investment per square foot was \$74.0 per square foot at the end of Fiscal 2013 as compared to \$70.4 per square foot at the end of Fiscal 2012. Accounts payable leverage measures the percentage of inventory being funded by the Company's product vendors. The percentage is important in determining the Company's ability to fund its business. Accounts payable leverage on inventory was 51.7% as of February 1, 2014 compared with 51.1% as of February 2, 2013.

Cash used by investing activities was \$7.8 million in Fiscal 2013, compared to cash flows provided by investing activities of \$25.7 million in Fiscal 2012. During Fiscal 2013, cash used by investing activities consisted of capital expenditures of \$7.8 million. The Company's capital expenditures consisted primarily of the expenditures for store improvements and investments in information technology. During Fiscal 2012, cash provided by investing activities consisted of proceeds from the sale of real property of \$29.1 million, partially offset by capital expenditures of \$3.4 million.

The Company has historically financed its capital expenditures through borrowings under its credit facility, select financing arrangements and cash flow from operations. The Company anticipates capital spending of approximately \$15.0 million in Fiscal 2014 as the Company invests in strategic initiatives, including investments in our store base and technology.

Cash used in financing activities was \$1.5 million in Fiscal 2013, compared to \$16.9 million in Fiscal 2012. In Fiscal 2013, the primary uses of cash were stock repurchases of \$5.4 million and payments of capital lease obligations of \$0.9 million, offset by proceeds from the exercise of long term equity awards of \$4.9 million. In Fiscal 2012, the primary uses of cash were payment of a special dividend of \$14.9 million and payments of long-term debt and capital lease obligations of \$1.7 million and \$0.8 million, respectively.

In May 2012, the Company entered into a \$75 million credit facility (“Credit Facility”) which amended the previous credit facility. The principal amount of all outstanding loans under the Credit Facility together with any accrued but unpaid interest, are due and payable in May 2017, unless otherwise paid earlier pursuant to the terms of the Credit Facility. Payments of amounts due under the Credit Facility are secured by the assets of the Company.

The Credit Facility includes customary provisions, including affirmative and negative covenants, which include representations, warranties and restrictions on additional indebtedness and acquisitions. The Credit Facility also includes customary events of default, including, among other things, material adverse effect, bankruptcy, and certain changes of control. The Credit Facility also contains other terms and conditions, including limitations on the payment of dividends and covenants around the number of store closings. It also changed the formula for interest rates. The Company is compliant with all covenants.

Interest under the Credit Facility will accrue, at the election of the Company, at a Base Rate or LIBO Rate, plus, in each case, an Applicable Margin, which is determined by reference to the level of availability, with the Applicable Margin for LIBO Rate loans ranging from 2.25% to 2.75% and the Applicable Margin for Prime Rate loans ranging from 0.75% to 1.25%. In addition, a commitment fee ranging from 0.375% to 0.50% is also payable on unused commitments.

The availability under the Credit Facility is subject to limitations based on sufficient inventory levels.

As of February 1, 2014 and February 2, 2013, the Company did not have any borrowings under the Credit Facility. During Fiscal 2013 and Fiscal 2012, the Company did not have any borrowings under the Credit Facility. As of February 1, 2014 and February 2, 2013, the Company had no outstanding letter of credit obligations and \$0.4 million of outstanding letter of credit obligation under the Credit Facility, respectively. The Company had \$53 million and \$54 million available for borrowing as of February 1, 2014 and February 2, 2013, respectively.

Off-Balance Sheet Arrangements. The Company has no off-balance sheet arrangements as defined by Item 303 (a) (4) of Regulation S-K.

Contractual Obligations and Commitments. The following table summarizes the Company’s contractual obligations as of February 1, 2014, and the effect that such obligations are expected to have on liquidity and cash flows in future periods.

<u>Contractual Obligation</u>	<u>2014</u>	<u>2015-2016</u>	<u>2017-2018</u>	<u>2019 and Beyond</u>	<u>Total</u>
	\$ in thousands				
Operating lease and maintenance agreement obligations	21,876	21,877	6,970	3,710	54,433
Capital lease obligations.....	2,325	1,779	—	—	4,104
Purchase obligations ⁽¹⁾	—	—	—	—	—
Other long-term liabilities ⁽²⁾⁽³⁾	1,687	939	258	98	2,982
Pension benefits ⁽⁴⁾	137	324	2,280	5,904	8,645
Total.....	<u>26,025</u>	<u>24,919</u>	<u>9,508</u>	<u>9,712</u>	<u>70,164</u>

⁽¹⁾ For the purposes of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The Company’s purchase orders are based on its current inventory needs and are fulfilled by its suppliers within short time periods.

⁽²⁾ Included in other long-term liabilities in the Consolidated Balance Sheet as of February 1, 2014 is the long-term portion of deferred rent of \$0.7 million which are not reflected in the table above as these amounts do not represent contractual obligations. Also included in other long-term liabilities is the long-term portion of the straight line rent liability of \$0.7 million, which is included in operating lease obligations in the table above.

- (3) Included in other long-term liabilities in the table above are the estimated asset retirement obligations associated with the fixed assets and leasehold improvements at the Company's store locations that arise under the terms of operating leases.
- (4) In addition to the scheduled pension benefit payments, the Company offers a 401(k) Savings Plan to eligible employees (see also Note 7 of Notes to Consolidated Financial Statements in this report). Total expense related to the Company's matching contribution was approximately \$331,000, \$0 and \$3,000 in Fiscal 2013, Fiscal 2012 and Fiscal 2011 respectively. The Company postponed its matching contribution effective March 1, 2011. The Company reinstated its matching contribution effective May 1, 2013.

Related Party Transactions.

The Company leases its 181,300 square foot distribution center/office facility in Albany, New York from Robert J. Higgins, its Chairman, Chief Executive Officer and largest shareholder, under three capital leases that expire in the year 2015. The original distribution center/office facility was occupied in 1985.

Under the three capital leases, dated April 1, 1985, November 1, 1989 and September 1, 1998, the Company paid Mr. Higgins an annual rent of \$2.3 million, \$2.3 million and \$2.2 million in Fiscal 2013, 2012 and 2011 respectively. Pursuant to the terms of the lease agreements, effective January 1, 2002 and every two years thereafter, rental payments will increase in accordance with the biennial increase in the Consumer Price Index. Under the terms of the lease agreements, the Company is responsible for property taxes, insurance and other operating costs with respect to the premises. Mr. Higgins does not have any future obligation for principal and interest. None of the leases contain any real property purchase options at the expiration of its term.

The Company leases one of its retail stores from Mr. Higgins under an operating lease. Annual rental payments under this lease were \$40,000 in Fiscal 2013, 2012 and 2011. Under the terms of the lease, the Company pays property taxes, maintenance and a contingent rent if a specified sales level is achieved. No contingent rent was paid in Fiscal 2013, 2012, and 2011. Total additional charges for the store were approximately \$3,800, \$6,400 and \$6,900 in Fiscal 2013, 2012 and 2011 respectively.

CRITICAL ACCOUNTING POLICIES

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 merchandise inventory and return costs, valuation of long-lived assets, income taxes and accounting for gift card liability. 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 Consolidated Financial Statements in this report includes a summary of the significant accounting policies and methods used by the Company in the preparation of its consolidated financial statements. Management believes that of the Company's significant accounting policies, the following may involve a higher degree of judgment or complexity:

Merchandise Inventory and Return Costs: Merchandise inventory is stated at the lower of cost or market under the average cost method. The average cost method attaches a cost to each item and is a blended average of the original purchase price and those of subsequent purchases or other cost adjustments throughout the life cycle of that item.

Inventory valuation requires significant judgment and estimates, including obsolescence, shrink and any adjustments to market value; if market value is lower than cost. Inherent in the entertainment products industry is the risk of obsolete inventory. Typically, newer releases generate a higher product demand. Some vendors offer credits to reduce the cost of products that are selling more slowly, thus allowing for a reduction in the selling price and reducing the possibility for items to become obsolete. The Company records obsolescence and any adjustments to market value (if

lower than cost) based on current and anticipated demand, customer preferences, and market conditions. The provision for inventory shrink is estimated as a percentage of sales for the period from the last date a physical inventory was performed to the end of the fiscal year. Such estimates are based on historical results and trends and the shrink results from the last physical inventory. Physical inventories are taken at least annually for all stores and the distribution center throughout the year and inventory records are adjusted accordingly.

Shrink expense, including obsolescence was \$5.2 million, \$6.6 million and \$5.8 million, in Fiscal 2013, 2012 and 2011 respectively. As a rate to net sales, this equaled 1.3%, 1.4% and 1.1%, respectively. Presently, a 0.1% change in the rate of shrink provision would equal approximately \$0.3 million in additional charge or benefit to cost of sales, based on Fiscal 2013 net sales since the last physical inventories.

The Company is generally entitled to return merchandise purchased from major vendors for credit against other purchases from these vendors. Certain vendors reduce the credit with a per unit merchandise return charge which varies depending on the type of merchandise being returned. Certain other vendors charge a handling fee based on units returned. The Company records merchandise return charges in cost of sales. The Company incurred merchandise return charges in its Fiscal 2013, Fiscal 2012 and Fiscal 2011 of \$0.9 million, \$1.4 million and \$1.7 million, respectively.

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 operating 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 the results of operations in the period that includes the enactment date.

Accounting for income taxes requires management to make estimates and judgments regarding interpretation of various taxing jurisdictions, laws and regulations as well as the ultimate realization of deferred tax assets. These estimates and judgments include the generation of future taxable income, viable tax planning strategies and support of tax filings. In assessing the value 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 taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. Based on the available objective evidence, management concluded that a full valuation allowance should be recorded against its net deferred tax assets as of February 1, 2014. During Fiscal 2014 and in future years, the Company will continue to record a valuation allowance against recorded net deferred tax assets at a level deemed appropriate by management.

Accounting for Gift Card Liability: The Company sells gift cards that are redeemable only for merchandise and have no expiration date. The Company adjusts card liability when either customers redeem cards, at which point the Company records revenue, or when the Company determines it does not have a legal obligation to remit unredeemed cards to the relevant jurisdictions and the likelihood of the cards being redeemed becomes remote, at which point the Company records breakage as a credit to SG&A expenses. The Company's accounting for gift cards is based on estimating the Company's liability for future card redemptions at the end of a reporting period. Estimated liability is equal to the most recent two years of unredeemed cards, plus an amount for outstanding cards that may possibly be redeemed for the cumulative look-back period, exclusive of the last two years. The Company's ability to reasonably and reliably estimate the liability is based on historical redemption experience with gift cards and similar types of arrangements and the existence of a large volume of relatively homogeneous transactions. The Company's estimate is not susceptible to significant external factors and the circumstances around gift card sales and redemptions have not changed significantly over time.

Recently Issued Accounting Pronouncements.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. Under this standard, entities are required to disclose additional information with respect to changes in accumulated other comprehensive income (“AOCI”) balances by component and significant items reclassified out of AOCI. Expanded disclosures for presentation of changes in AOCI involve disaggregating the total change of each component of other comprehensive income as well as presenting separately for each such component the portion of change in AOCI related to (1) amounts reclassified into income and (2) current-period other comprehensive income. Additionally, for amounts reclassified into income, disclosure in one location is required, based upon each specific AOCI component, of the amounts impacting individual income statement line items. Disclosure of the income statement line item impacts is required only for components of AOCI reclassified into income in their entirety. Therefore, disclosure of the income statement line items affected by AOCI components such as net periodic benefit costs is not included. The disclosures required with respect to income statement line item impacts are to be made in either the notes to the consolidated financial statements or parenthetically on the face of the financial statements. Because this standard only impacts presentation and disclosure requirements, its adoption did not have a material impact on the Company’s consolidated results of operations or financial condition.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not hold any financial instruments that expose it to significant market risk and does not engage in hedging activities. To the extent the Company borrows under its revolving credit facility, the Company is subject to risk resulting from interest rate fluctuations since interest on the Company’s borrowings under its credit facility can be variable. If interest rates on the Company’s revolving credit facility were to increase by 25 basis points, and to the extent borrowings were outstanding, for every \$1,000,000 outstanding on the facility, income before income taxes would be reduced by \$2,500 per year. Information about the fair value of financial instruments is included in Note 1 of Notes to the Consolidated Financial Statements in this report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The index to the Company’s Consolidated Financial Statements is included in Item 15, and the Consolidated Financial Statements follow the signature page to this report and are incorporated herein by reference.

The quarterly results of operations are included herein in Note 11 of Notes to the Consolidated Financial Statements in this report.

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

None.

Item 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures: Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on this evaluation, our principal executive officer and our principal financial officer concluded that the Company’s disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives and as of the end of the period covered by this annual report, our disclosure controls and procedures were effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports we file or submit, under the Exchange Act, is recorded, processed, summarized, as appropriate, to allow timely decisions regarding required disclosure and reported

within the time period specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management including the principal executive officer and principal financial officer.

Management's Report on Internal Control Over Financial Reporting: Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act, as amended). Under the supervision and with the participation of the Company's management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework (1992)*. Based on our evaluation under the framework in *Internal Control- Integrated Framework (1992)*, our management concluded that our internal control over financial reporting was effective as of February 1, 2014.

The Company's independent registered public accounting firm, KPMG LLP, has issued an audit report on the Company's effectiveness of internal control over financial reporting as of February 1, 2014, which is included on page F-3 in Item 8 of this report and incorporated herein by reference.

Changes in Controls and Procedures: No change in our internal control over financial reporting occurred during the quarterly period ended February 1, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

No events have occurred which would require disclosure under this Item.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item is incorporated by reference from the information to be included in the Proxy Statement to be filed pursuant to Regulation 14A with the SEC, which Proxy Statement is incorporated by reference.

Code of Ethics

We have adopted the Trans World Entertainment Corporation Code of Ethics that applies to all officers, directors, employees and consultants of the Company. The Code of Ethics is intended to comply with Item 406 of Regulation S-K of the Securities Exchange Act of 1934 and with applicable rules of The NASDAQ Stock Market, Inc. Our Code of Ethics is posted on our Internet website under the "Corporate" page. Our Internet website address is www.twec.com. To the extent required by the rules of the SEC and NASDAQ, we will disclose amendments and waivers relating to our Code of Ethics in the same place on our website.

Item 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference from the information to be included in the Proxy Statement to be filed pursuant to Regulation 14A with the SEC, which Proxy Statement is incorporated by reference.

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

Information required by this item is incorporated by reference from the information to be included in the Proxy Statement to be filed pursuant to Regulation 14A with the SEC, which Proxy Statement is incorporated by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference from the information to be included in the Proxy Statement to be filed pursuant to Regulation 14A with the SEC, which Proxy Statement is incorporated by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item is incorporated by reference from the information to be included in the Proxy Statement to be filed pursuant to Regulation 14A with the SEC, which Proxy Statement is incorporated by reference.

PART IV**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**15(a) (1) Financial Statements

The Consolidated Financial Statements and Notes are listed in the Index to Consolidated Financial Statements on page F-1 of this report.

15(a) (2) Financial Statement Schedules

Consolidated Financial Statement Schedules not filed herein have been omitted as they are not applicable or the required information or equivalent information has been included in the Consolidated Financial Statements or the notes thereto.

15(a) (3) Exhibits

Exhibits are as set forth in the “Index to Exhibits” which follows the Notes to the Consolidated Financial Statements and immediately precedes the exhibits filed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANS WORLD ENTERTAINMENT
CORPORATION

Date: April 17, 2014

By: /s/ Robert J. Higgins
Robert J. Higgins
Chairman and Chief Executive Officer

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u> /s/ ROBERT J. HIGGINS </u> (Robert J. Higgins)	Chairman and Chief Executive Officer (Principal Executive Officer)	April 17, 2014
<u> /s/ JOHN ANDERSON </u> (John Anderson)	Chief Financial Officer (Principal Financial and Chief Accounting Officer)	April 17, 2014
<u> /s/ MARTIN HANAKA </u> (Martin Hanaka)	Director	April 17, 2014
<u> /s/ DR. JOSEPH MORONE </u> (Dr. Joseph G. Morone)	Director	April 17, 2014
<u> /s/ ROBERT MARKS </u> (Robert Marks)	Director	April 17, 2014
<u> /s/ MICHAEL NAHL </u> (Michael Nahl)	Director	April 17, 2014
<u> /s/ MICHAEL B. SOLOW </u> (Michael B. Solow)	Director	April 17, 2014

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Report of Independent Registered Public Accounting Firm

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 (the “Company”) as of February 1, 2014 and February 2, 2013, and the related consolidated statements of income, comprehensive income (loss), shareholders’ equity, and cash flows for each of the fiscal years in the three-year period ended February 1, 2014. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 1, 2014 and February 2, 2013, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended February 1, 2014, in conformity with U.S. generally accepted accounting principles. We also have audited, in accordance with the standards of Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of February 1, 2014, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 17, 2014 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Albany, New York
April 17, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Trans World Entertainment Corporation:

We have audited Trans World Entertainment Corporation's (the Company) internal control over financial reporting as of February 1, 2014, based on criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Trans World Entertainment Corporation maintained, in all material respects, effective internal control over financial reporting as of February 1, 2014, based on criteria established in *Internal Control—Integrated Framework* (1992) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Trans World Entertainment Corporation and subsidiaries as of February 1, 2014 and February 2, 2013, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended February 1, 2014, and our report dated April 17, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Albany, New York
April 17, 2014

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(\$ in thousands, except per share and share amounts)

	<u>February 1, 2014</u>	<u>February 2, 2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 131,002	\$ 132,982
Accounts receivable.....	2,684	2,631
Merchandise inventory.....	150,167	155,429
Prepaid expenses and other.....	7,114	6,734
Total current assets.....	<u>290,967</u>	<u>297,776</u>
FIXED ASSETS, net.....	12,419	9,057
OTHER ASSETS.....	9,031	8,407
TOTAL ASSETS.....	<u>\$ 312,417</u>	<u>\$ 315,240</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 77,625	\$ 79,438
Accrued expenses and other current liabilities	7,375	10,122
Accrued incentives.....	498	7,667
Deferred revenue	10,092	10,464
Current portion of capital lease obligations	1,066	936
Total current liabilities.....	<u>96,656</u>	<u>108,627</u>
CAPITAL LEASE OBLIGATIONS, less current portion.....	938	2,004
OTHER LONG-TERM LIABILITIES.....	23,027	23,849
TOTAL LIABILITIES	<u>120,621</u>	<u>134,480</u>
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; 58,298,668 shares and 56,728,146 shares issued, respectively).....	583	567
Additional paid-in capital.....	314,932	309,451
Treasury stock at cost (26,108,846 and 25,102,990 shares, respectively) ...	(222,948)	(217,555)
Accumulated other comprehensive loss	(119)	(2,774)
Retained earnings.....	99,348	91,071
TOTAL SHAREHOLDERS' EQUITY	<u>191,796</u>	<u>180,760</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY ...	<u>\$ 312,417</u>	<u>\$ 315,240</u>

See Accompanying Notes to Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Net sales	\$393,659	\$458,544	\$542,589
Cost of sales.....	<u>245,755</u>	<u>286,422</u>	<u>344,435</u>
Gross profit.....	147,904	172,122	198,154
Selling, general and administrative expenses.....	137,529	158,572	192,653
Gain on sale of asset	—	<u>(22,750)</u>	—
Income from operations.....	10,375	36,300	5,501
Interest expense.....	2,010	2,384	3,429
Other income.....	<u>(80)</u>	<u>(66)</u>	<u>(240)</u>
Income before income taxes.....	8,445	33,982	2,312
Income tax expense	<u>168</u>	<u>248</u>	<u>150</u>
NET INCOME	\$ 8,277	\$ 33,734	\$ 2,162
BASIC AND DILUTED INCOME PER SHARE:			
Basic income per share	\$ 0.25	\$ 1.07	\$ 0.07
Weighted average number of common shares outstanding— basic.....	32,584	31,577	31,520
Diluted income per share	\$ 0.25	\$ 1.06	\$ 0.07
Weighted average number of common shares outstanding— diluted.....	32,862	31,878	32,036
Cash dividend paid per share	—	\$ 0.47	—

Annual Report

See Accompanying Notes to Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(amounts in thousands)

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Net income.....	\$ 8,277	\$33,734	\$ 2,162
Pension income (loss) adjustment	<u>2,655</u>	<u>(617)</u>	<u>(2,573)</u>
Comprehensive income (loss).....	<u>\$10,932</u>	<u>\$33,117</u>	<u>(\$411)</u>

See Accompanying Notes to Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(amounts in thousands)

	Common Shares	Common Stock	Additional Paid-in Capital	Treasury Shares	Treasury Stock At Cost	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Shareholders' Equity
Balance as of January 29, 2011	56,527	\$565	\$308,333	(25,103)	(\$217,555)	\$ 416	\$ 70,039	\$161,798
Net income	—	—	—	—	—	—	2,162	2,162
Pension loss adjustment	—	—	—	—	—	(2,573)	—	(2,573)
Stock compensation	—	—	298	—	—	—	—	298
Issuance of stock to Directors	30	1	160	—	—	—	—	161
Balance as of January 28, 2012	56,557	\$566	\$308,791	(25,103)	(\$217,555)	(\$2,157)	\$ 72,201	\$161,846
Net income	—	—	—	—	—	—	33,734	33,734
Pension loss adjustment	—	—	—	—	—	(617)	—	(617)
Stock compensation	—	—	97	—	—	—	—	97
Exercise of equity grants	171	1	563	—	—	—	—	564
Cash dividends paid	—	—	—	—	—	—	(14,864)	(14,864)
Balance as of February 2, 2013	56,728	\$567	\$309,451	(25,103)	(\$217,555)	(\$2,774)	\$ 91,071	\$180,760
Net Income	—	—	—	—	—	—	8,277	8,277
Pension income adjustment	—	—	—	—	—	2,655	—	2,655
Stock compensation	—	—	255	—	—	—	—	255
Exercise of equity grants	1,477	15	4,854	—	—	—	—	4,869
Purchase of treasury stock	—	—	—	(1,006)	(5,393)	—	—	(5,393)
Issuance of stock to Directors	94	1	372	—	—	—	—	373
Balance as of February 1, 2014	58,299	\$583	\$314,932	(26,109)	(\$222,948)	(\$119)	\$ 99,348	\$191,796

See Accompanying Notes to Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$ in thousands)

	Fiscal Year Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
OPERATING ACTIVITIES:			
Net income	\$ 8,277	\$ 33,734	\$ 2,162
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of fixed assets	4,304	4,437	6,630
Amortization of lease valuations, net.....	138	138	264
Long term incentive compensation	255	97	312
Loss on disposal of fixed assets	162	151	302
Gain on sale of asset.....	—	(22,750)	—
Increase in cash surrender value.....	(1,081)	(668)	(143)
Changes in operating assets and liabilities:			
Accounts receivable	(53)	2,658	(1,425)
Merchandise inventory	5,262	35,898	42,837
Prepaid expenses and other	(380)	(3,632)	1,197
Other assets	319	137	1,264
Accounts payable.....	(1,439)	(13,703)	(36,866)
Accrued expenses, accrued incentives, deferred revenue and other current liabilities	(7,634)	(1,608)	(936)
Other long-term liabilities	(822)	744	1,173
Net cash provided by operating activities	<u>7,308</u>	<u>35,633</u>	<u>16,771</u>
INVESTING ACTIVITIES:			
Purchases of fixed assets	(7,828)	(3,351)	(2,105)
Proceeds from sale of asset	—	29,057	—
Net cash provided by (used in) investing activities...	<u>(7,828)</u>	<u>25,706</u>	<u>(2,105)</u>
FINANCING ACTIVITIES:			
Cash dividends paid.....	—	(14,864)	—
Exercise of long term equity awards	4,869	564	—
Payments of long-term debt.....	—	(1,748)	(640)
Payments of capital lease obligations	(936)	(824)	(723)
Purchase of treasury stock	(5,393)	—	—
Net cash used in financing activities	<u>(1,460)</u>	<u>(16,872)</u>	<u>(1,363)</u>
Net increase (decrease)in cash and cash equivalents	(1,980)	44,467	13,303
Cash and cash equivalents, beginning of year	<u>132,982</u>	<u>88,515</u>	<u>75,212</u>
Cash and cash equivalents, end of year.....	<u>\$131,002</u>	<u>\$132,982</u>	<u>\$ 88,515</u>
Supplemental disclosures and non-cash investing and financing activities:			
Interest paid	\$ 2,015	\$ 2,408	\$ 3,206
Issuance of deferred / restricted shares under deferred / restricted stock plans	373	—	—

See Accompanying Notes to Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nature of Operations: Trans World Entertainment Corporation and subsidiaries (“the Company”) is one of the largest specialty retailers of entertainment products, including video, music, trend, electronics, video games and related products in the United States. The Company operates a chain of retail entertainment stores and e-commerce sites, **www.fye.com**, **www.warehouse.com** and **www.secondspin.com** in a single industry segment. As of February 1, 2014, the Company operated 339 stores totaling approximately 2.0 million square feet in the United States, the District of Columbia and the U.S. Virgin Islands. The Company’s business is seasonal in nature, with the peak selling period being the holiday season which falls in the Company’s fourth fiscal quarter.

Liquidity: The Company’s primary sources of working capital are cash provided by operations and borrowing capacity under its revolving credit facility. The Company’s cash flows fluctuate from quarter to quarter due to various items, including seasonality of sales and earnings, merchandise inventory purchases and returns, the related terms on the purchases and capital expenditures. Management believes it will have adequate resources to fund its cash needs for the foreseeable future, including its capital spending, its seasonal increase in merchandise inventory and other operating cash requirements and commitments.

Management anticipates any cash requirements due to a shortfall in cash from operations will be funded by the Company’s revolving credit facility, discussed hereafter.

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. 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, including those related to merchandise inventory and return costs, valuation of long-lived assets, income taxes, and accounting for gift card liability, 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. We have reclassified certain prior-year amounts to conform to the current-year’s presentation.

Items Affecting Comparability: The Company’s fiscal year is a 52 or 53-week period ending the Saturday nearest to January 31. Fiscal 2013, 2012, and 2011 ended February 1, 2014, February 2, 2013, and January 28, 2012, respectively. Fiscal 2013 and Fiscal 2011 had 52 weeks and Fiscal 2012 had 53 weeks. The 53rd week in Fiscal 2012 contributed less than 2% to net sales.

Concentration of Business Risks: The Company purchases inventory from approximately 500 suppliers. In Fiscal 2013, 60% of purchases were made from ten suppliers including Twentieth Century Fox Video, Paramount Home Entertainment, RED Distribution, Sony Music Entertainment, Sony Pictures Home Entertainment, Universal Music Group Distribution, Universal Studios Home Entertainment, Buena Vista Home Entertainment, Warner Home Video and Warner, Elektra, Atlantic Corp Group.. The Company does not have material long-term purchase contracts; rather, it purchases products from its suppliers on an order-by-order basis. Historically, the Company has not experienced difficulty in obtaining satisfactory sources of supply and management believes that it will continue to have access to adequate sources of supply.

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 money market funds. The Company’s investments consist 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 these investments, all of

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

which are classified as cash equivalents due to their short term nature, with various financial institutions. These amounts often exceed the FDIC insurance 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.

Accounts Receivable: Accounts receivable are comprised of receivables and other individually insignificant amounts. There are no provisions for uncollectible amounts from retail sales of merchandise inventory since payment is received at the time of sale.

Merchandise Inventory and Return Costs: Merchandise inventory is stated at the lower of cost or market under the average cost method. Inventory valuation requires significant judgment and estimates, including obsolescence, shrink and any adjustments to market value, if market value is lower than cost. The Company records obsolescence and any adjustments to market value (if lower than cost) based on current and anticipated demand, customer preferences and market conditions. The provision for inventory shrink is estimated as a percentage of store sales for the period from the last date a physical inventory was performed to the end of the fiscal year. Such estimates are based on historical results and trends, and the shrink results from the last physical inventory. Physical inventories are taken at least annually for all stores and distribution centers throughout the year, and inventory records are adjusted accordingly.

The Company is generally entitled to return merchandise purchased from major music vendors for credit against other purchases from these vendors. Certain vendors reduce the credit with a merchandise return charge which varies depending on the type of merchandise being returned. Certain other vendors charge a handling fee based on units returned. The Company records merchandise return charges in cost of sales.

Fixed Assets and Depreciation: Fixed assets are recorded at cost and depreciated or amortized over the estimated useful life of the asset using the straight-line method. The estimated useful lives are as follows:

Leasehold improvements	Lesser of estimated useful life of the asset or the lease term
Fixtures and equipment	3-7 years
Buildings and improvements	10-30 years

Major improvements and betterments to existing facilities and equipment are capitalized. Expenditures for maintenance and repairs are expensed as incurred. Amortization of capital lease assets is included in depreciation and amortization expense.

Impairment of Long-Lived Assets: 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 the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized 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. Assets to be disposed of would be separately presented in the Consolidated Balance Sheets and reported at the lower of the carrying amount or fair value less disposition costs. For the purpose of the asset impairment test, the Company has two asset groupings—corporate and store level assets.

The Company did not recognize an impairment expense during Fiscal 2013, 2012 and 2011. Losses for store closings in the ordinary course of business represent the write down of the net book value of abandoned fixtures and leasehold improvements. The loss on disposal of fixed assets related to store closings was \$0.2 million, \$0.2 million and \$0.3 million in Fiscal 2013, 2012 and 2011, respectively, and is included in selling, general and administrative (“SG&A”) expenses in the Consolidated Statements of Income and loss on disposal of fixed assets in the Consolidated

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Statements of Cash Flows. Store closings usually occur at the expiration of the lease, at which time leasehold improvements, which constitute a majority of the abandoned assets, are fully depreciated.

Conditional Asset Retirement Obligations: The Company records the fair value of an asset retirement obligation (“ARO”) as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the asset. The Company also records a corresponding asset that is depreciated over the life of the asset. Subsequent to its initial measurement, the ARO is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

Commitments and Contingencies: The Company is subject to 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.

Revenue Recognition: The Company’s revenue is primarily from retail sales of merchandise inventory. Revenue is recognized at the point-of-sale. Internet sales are recognized as revenue upon shipment. Shipping and handling fee income from the Company’s Internet operations is recognized as net sales. Loyalty card revenue is amortized over the life of the membership period. Net sales are recorded net of estimated amounts for sales returns and other allowances. The Company records shipping and handling costs in cost of sales. Net sales are recorded net of applicable sales taxes.

Cost of Sales: In addition to the cost of product, the Company includes in cost of sales those costs associated with purchasing, receiving, shipping, inspecting and warehousing product. Also included are costs associated with the return of product to vendors. Cost of sales further includes the cost of inventory shrink losses and obsolescence and the benefit of vendor allowances and discounts.

Selling, General and Administrative (“SG&A”) Expenses: Included in SG&A expenses are payroll and related costs, store operating costs, occupancy charges, professional and service fees, general operating and overhead expenses and depreciation charges (excluding those related to distribution operations, as discussed in Note 2 of Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K). Selling, general and administrative expenses also include fixed asset write offs associated with store closures, if any, and miscellaneous income and expense items, other than interest. The Company recorded miscellaneous income items for Fiscal 2013, 2012, and 2011 in the amount of \$6.1 million, \$6.0 million, and \$4.7 million, respectively.

Advertising Costs and Vendor Allowances: The Company often receives allowances from its vendors to fund in-store displays, print and radio advertising, and other promotional events. Vendor advertising allowances which exceed specific, incremental and identifiable costs incurred in relation to the advertising and promotions offered by the Company to its vendors are classified as a reduction in the purchase price of merchandise inventory. Accordingly, advertising and sales promotion costs are charged to operations, offset by direct vendor reimbursements, as incurred. Total advertising expense, excluding vendor allowances, was \$4.2 million, \$4.1 million, and \$4.8 million in Fiscal 2013, 2012, and 2011, respectively. In the aggregate, vendor allowances supporting the Company’s advertising and promotion included as a reduction of SG&A expenses, as reimbursements of such costs were \$4.2 million, \$4.0 million, and \$4.8 million in Fiscal 2013, 2012, and 2011, respectively.

Lease Accounting: The Company’s calculation of straight-line rent expense includes the impact of escalating rents for periods in which it is reasonably assured of exercising lease options and includes in the lease term any period during which the Company is not obligated to pay rent while the store is being constructed (“rent holiday”). The Company accounts for step rent provisions, escalation clauses and other lease concessions by recognizing these amounts on a straight line basis

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

over the initial lease term. The Company capitalizes leasehold improvements funded by tenant improvement allowances, depreciating them over the term of the related leases. The tenant improvement allowances are recorded as deferred rent within other long-term liabilities in the Consolidated Balance Sheet and are amortized as a reduction in rent expense over the life of the related leases.

Store Closing Costs: Management periodically considers the closing of underperforming stores. In the event of a store closing, reserves are established at the time a liability is incurred for the present value of any remaining lease obligations, net of estimated sublease income, and other exit costs. Store closings are not considered discontinued operations due to the expected migration of sales to ongoing stores.

Gift Cards: The Company offers gift cards for sale. A deferred income account, which is included in deferred revenue in the Consolidated Balance Sheets, is established for gift cards issued. The deferred income balance related to gift cards was \$3.8 million and \$4.5 million at the end of Fiscal 2013 and 2012, respectively. When gift cards are redeemed at the store level, revenue is recorded and the related liability is reduced. Breakage is estimated based on the historical relationship of the redemption of gift cards redeemed to gift cards sold, over a certain period of time. The Company has the ability to reasonably and reliably estimate gift card liability based on historical experience with redemption rates associated with a large volume of homogeneous transactions, from a period of more than ten years. The Company's estimate is not susceptible to significant external factors and the circumstances around purchases and redemptions have not changed significantly over time. The Company recorded breakage on its gift cards for Fiscal 2013, 2012 and 2011 in the amount of \$0.7 million, \$1.0 million and \$1.7 million, respectively. Gift card breakage is recorded as a reduction of SG&A expenses.

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 operating loss and tax credit 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.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. It is the Company's practice to recognize interest and penalties related to income tax matters in income tax expense (benefit) in the consolidated statements of income.

Stock-Based Compensation: Stock-based compensation represents the cost related to stock-based awards granted to employees and directors. The Company measures stock-based compensation cost at grant date, based on the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the option's requisite service period. The Company recognizes compensation expense based on estimated grant date fair value using the Black-Scholes option-pricing model. Tax benefits, if any, resulting from tax deductions in excess of the compensation cost recognized for those options are to be classified and reported as both an operating cash outflow and financing cash inflow.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and pension income (loss) adjustment.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income Per Share: Basic income per share is calculated by dividing net income by the weighted average common shares outstanding for the period. Diluted income 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 awards from the Company's stock award plans.

The following is a reconciliation of the basic weighted average number of shares outstanding to the diluted weighted average number of shares outstanding:

	Fiscal Year		
	2013	2012	2011
	(in thousands)		
Weighted average common shares outstanding—basic	32,584	31,577	31,520
Dilutive effect of outstanding stock awards	278	301	516
Weighted average common shares outstanding—diluted	32,862	31,878	32,036
Antidilutive stock awards	2,450	4,541	5,007

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. The carrying value of life insurance policies included in other assets approximates fair value based on estimates received from insurance companies.

Segment Information: The Company has one reportable segment.

Note 2. Fixed Assets

Fixed assets consist of the following:

	February 1, 2014	February 2, 2013
		(\$ in thousands)
Buildings and improvements	\$ 11,838	\$ 9,938
Fixtures and equipment	118,655	117,874
Leasehold improvements	32,622	31,346
Total fixed assets	163,115	159,158
Allowances for depreciation and amortization	(150,696)	(150,101)
Fixed assets, net	\$ 12,419	\$ 9,057

Depreciation of fixed assets is included in the Consolidated Statements of Income as follows:

	Fiscal Year		
	2013	2012	2011
	(\$ in thousands)		
Cost of sales	\$ 474	\$ 496	\$ 536
Selling, general and administrative expenses	3,830	3,941	6,094
Total	\$4,304	\$4,437	\$6,630

Depreciation expense related to the Company's distribution center facility and related equipment is included in cost of sales. All other depreciation and amortization of fixed assets is included in SG&A expenses.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 3. Gain on Sale of Asset

During Fiscal 2012, the Company sold real property in Miami, Florida. The Company received proceeds of \$29.1 million from the sale. The Company recorded a gain on the sale of \$22.8 million, net of the carrying cost of the asset and fees related to the sale.

Note 4. Debt

Credit Facility

In May 2012, the Company entered into a \$75 million credit facility (“Credit Facility”) which amended the previous credit facility. The principal amount of all outstanding loans under the Credit Facility together with any accrued but unpaid interest, are due and payable in May 2017, unless otherwise paid earlier pursuant to the terms of the Credit Facility. Payments of amounts due under the Credit Facility are secured by the assets of the Company.

The Credit Facility includes customary provisions, including affirmative and negative covenants, which include representations, warranties and restrictions on additional indebtedness and acquisitions. The Credit Facility also includes customary events of default, including, among other things, material adverse effect, bankruptcy, and certain changes of control. The Credit Facility also contains other terms and conditions, including limitations on the payment of dividends and covenants around the number of store closings. It also changed the formula for interest rates. The Company is compliant with all covenants.

Interest under the Credit Facility will accrue, at the election of the Company, at a Base Rate or LIBO Rate, plus, in each case, an Applicable Margin, which is determined by reference to the level of availability, with the Applicable Margin for LIBO Rate loans ranging from 2.25% to 2.75% and the Applicable Margin for Prime Rate loans ranging from 0.75% to 1.25%. In addition, a commitment fee ranging from 0.375% to 0.50% is also payable on unused commitments.

The availability under the Credit Facility is subject to limitations based on sufficient inventory levels.

As of February 1, 2014 and February 2, 2013, the Company did not have any borrowings under the Credit Facility. During Fiscal 2013 and Fiscal 2012, the Company did not have any borrowings under the Credit Facility. As of February 1, 2014 and February 2, 2013, the Company had no outstanding letter of credit obligations and \$0.4 million of outstanding letter of credit obligation under the Credit Facility, respectively. The Company had \$53 million and \$54 million available for borrowing as of February 1, 2014 and February 2, 2013, respectively.

Mortgage Loan

During Fiscal 2004, the Company borrowed \$5.8 million under a mortgage loan to finance the purchase of real estate. During Fiscal 2012, the Company prepaid the remaining obligation on the mortgage loan. No future obligation exists.

Note 5. Income Taxes

Income tax expense consists of the following:

	Fiscal Year		
	2013	2012	2011
	(\$ in thousands)		
Federal—current	(\$10)	\$ 18	(\$15)
State—current.....	178	230	165
Deferred.....	—	—	—
Income tax expense.....	<u>\$ 168</u>	<u>\$248</u>	<u>\$ 150</u>

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	Fiscal Year		
	2013	2012	2011
Federal statutory rate.....	35.0%	35.0%	35.0%
State income taxes, net of federal tax effect.....	1.4%	0.5%	4.6%
Change in valuation allowance.....	(30.9%)	(34.3%)	(32.8%)
Cash surrender value–insurance/ benefit programs.....	(4.2%)	(0.6%)	(1.1%)
Other.....	0.7%	0.1%	0.8%
Effective income tax rate.....	2.0%	0.7%	6.5%

The Other category is comprised of various items, including the impacts of non deductible meals, dues, penalties, amortization and graduated tax brackets.

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

	February 1, 2014	February 2, 2013
	(\$ in thousands)	
DEFERRED TAX ASSETS		
Accrued expenses.....	\$ 846	\$ 999
Inventory.....	345	278
Retirement and compensation related accruals.....	7,323	10,290
Fixed assets.....	9,103	10,374
Federal and state net operating loss and credit carryforwards.....	75,665	74,642
Real estate leases, including deferred rent.....	2,492	2,299
Losses on investments.....	1,234	1,221
Goodwill.....	522	1,160
Other.....	963	926
Gross deferred tax assets before valuation allowance.....	98,493	102,189
Less: valuation allowance.....	(98,493)	(102,189)
Total deferred tax assets.....	\$ —	\$ —
DEFERRED TAX LIABILITIES		
	—	—
NET DEFERRED TAX ASSET	\$ —	\$ —

The Company has a net operating loss carryforward of \$157.6 million for federal income tax purposes and approximately \$244 million for state income tax purposes as of the end of Fiscal 2013 that expire at various times through 2032 and are subject to certain limitations and statutory expiration periods. The state net operating loss carryforwards are subject to various business apportionment factors and multiple jurisdictional requirements when utilized. The Company has federal tax credit carryforwards of \$1.2 million, of which \$0.2 million will expire in 2026, with the remainder available indefinitely. The Company has state tax credit carryforwards of \$1.1 million, of which \$0.3 million will expire in 2027.

In assessing the realizability 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 taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. Based on the available objective evidence, management concluded that a full valuation allowance should be recorded against its deferred tax assets. As of February 1, 2014, the valuation allowance decreased to \$98.5 million from \$102.2 million at February 2, 2013. The reduction in the Company's deferred tax assets was caused primarily by the reversal of certain deductible temporary differences to offset income

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

before income taxes earned in Fiscal 2013. Management will continue to assess the valuation allowance against the gross deferred assets.

During Fiscal 2013, Fiscal 2012 and Fiscal 2011 the Company paid income taxes, net of refunds, of approximately \$0.1 million, \$0.1 million and \$0.1 million, respectively.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the respective years is provided below. Amounts presented excluded interest and penalties, where applicable, on unrecognized tax benefits:

	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>	<u>Fiscal 2011</u>
	(\$ in thousands)		
Unrecognized tax benefits at beginning of the year.....	\$2,078	\$2,078	\$2,308
Increases in tax positions from prior years.....	—	—	—
Decreases in tax positions from prior years.....	—	—	—
Increases in tax positions for current year.....	—	—	—
Settlements.....	—	—	—
Lapse of applicable statute of limitations.....	(60)	—	(230)
Unrecognized tax benefits at end of the year.....	<u>\$2,018</u>	<u>\$2,078</u>	<u>\$2,078</u>

As of February 1, 2014, the Company had \$2.0 million of gross unrecognized tax benefits, \$1.5 million of which would affect the Company's tax rate if recognized. While it is reasonably possible that the amount of unrecognized tax benefits will increase or decrease within the next twelve months, the Company does not expect the change to have a significant impact on its results of operations or financial position.

The Company is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company has substantially concluded all federal income tax matters and all material state and local income tax matters through Fiscal 2009.

The Company's practice is to recognize interest and penalties associated with its unrecognized tax benefits as a component of income tax expense in the Company's Consolidated Statements of Income. During Fiscal 2013, the Company accrued a provision for interest and penalties of \$0.1 million. As of February 1, 2014, the liability for uncertain tax positions reflected in the Company's Consolidated Balance Sheets was \$2.5 million, including accrued interest and penalties of \$1.7 million.

Note 6. Leases

Leases—lessee

As more fully discussed in Note 9 in the Notes to Consolidated Financial Statements, the Company leases its Albany, NY distribution center and administrative offices under three capital lease arrangements from its Chairman, Chief Executive Officer and largest shareholder.

Fixed assets recorded under capital leases, which are included in fixed assets on the accompanying Consolidated Balance Sheets, are as follows:

	<u>February 1, 2014</u>	<u>February 2, 2013</u>
	(\$ in thousands)	
Buildings.....	\$ 9,342	\$ 9,342
Allowances for depreciation and amortization.....	(7,922)	(7,591)
	<u>\$ 1,420</u>	<u>\$ 1,751</u>

At February 1, 2014, the Company leased 338 stores under operating leases, many of which contain renewal options, for periods ranging from one to ten years. Most leases also provide for

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

payment of operating expenses and real estate taxes. Some also provide for contingent rent based on percentage of sales over a certain sales volume.

Net rental expense was as follows:

	Fiscal Year		
	2013	2012	2011
	(\$ in thousands)		
Minimum rentals	\$34,719	\$39,591	\$50,064
Contingent rentals	31	43	91
	\$34,750	\$39,634	\$50,155

Future minimum rental payments required under all leases that have initial or remaining non-cancelable lease terms at February 1, 2014 are as follows:

	Operating Leases	Capital Leases
	(\$ in thousands)	
2014	21,876	2,325
2015	14,295	1,779
2016	7,582	—
2017	4,548	—
2018	2,422	—
Thereafter	3,710	—
Total minimum payments required	54,433	\$4,104
Less: amounts representing interest		2,100
Present value of minimum lease payments		2,004
Less: current portion		1,066
Long-term capital lease obligations		\$ 938

In addition to the obligations in the table above, a number of the Company's stores have leases which have rent payments based on the store's sales volume in lieu of fixed minimum rent payments. During Fiscal 2013, minimum rent payments based on a store's sales volume were \$1.1 million.

Note 7. 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 80% of their salary, including bonuses, up to the maximum allowable by IRS regulations. Participants are immediately vested in their voluntary contributions plus actual earnings thereon. As of March 1, 2011, the Company suspended its matching contribution. Effective May 1, 2013, the Company reinstated its matching contribution. 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 or fees in future years. Total expense related to the Company's matching contribution was approximately \$331,000, \$0 and \$3,000 in Fiscal 2013, 2012 and 2011, respectively.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock Award Plans

The Company has three employee stock award plans, the 1994 Stock Option Plan and the 2002 Stock Option Plan (the “Old Plans”); and the 2005 Long Term Incentive and Share Award Plan (the “New Plan”). Additionally, the Company had a stock award plan for non-employee directors (the “1990 Plan”). The Company no longer issues stock options under the Old Plans.

Equity awards authorized for issuance under the New Plan total 5.0 million. As of February 1, 2014, of the awards authorized for issuance under the Old Plans, New Plan and 1990 Plan, 2.9 million were granted and are outstanding, 2.3 million of which were vested and exercisable. Shares available for future grants of options and other share based awards under the New Plan at February 1, 2014 and February 2, 2013 were 2.7 million and 2.6 million, respectively.

Total stock-based compensation expense recognized in the Consolidated Statements of Income for Fiscal 2013, Fiscal 2012 and Fiscal 2011 was \$0.3 million, \$0.1 million and \$0.3 million. For Fiscal 2013, Fiscal 2012 and Fiscal 2011 the related total deferred tax benefit was \$0. As of February 1, 2014, there was \$0.6 million of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over a weighted average period of 1.8 years.

The fair values of the options granted have been estimated at the date of grant using the Black—Scholes option pricing model with the following assumptions:

	Stock Option Plan		
	2013	2012	2011
Dividend yield.....	0%	0%	0%
Expected stock price volatility.....	67.6%-75.2%	68.5%-76.8%	69.9%-75.4%
Risk-free interest rate	0.85%-2.1%	0.69%-0.98%	1.42%-2.81%
Expected award life (in years).....	4.92-6.98	4.92-6.98	4.92-6.98
Weighted average fair value per share of awards granted during the year	\$2.99	\$1.70	\$1.27

The following table summarizes information about stock option awards outstanding under the Old Plans, New Plan and 1990 Plan as of February 1, 2014:

Exercise Price Range	Outstanding				Exercisable		
	Shares	Average Remaining Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$0.00-\$2.66	445,000	7.0	\$ 2.09	\$831,171	82,500	\$ 2.08	\$154,094
2.67-5.33	857,525	4.3	5.06	—	611,275	5.30	—
5.34-8.00	204,800	3.2	5.58	—	204,800	5.58	—
8.01-10.67	749,950	0.2	10.31	—	749,950	10.31	—
10.68-13.33	—	—	—	—	—	—	—
13.34-16.00	649,915	1.2	14.32	—	649,915	14.32	—
Total	<u>2,907,190</u>	2.9	\$ 8.07	<u>\$831,171</u>	<u>2,298,440</u>	\$ 9.40	<u>\$154,094</u>

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value based on the Company’s closing stock price of \$3.96 as of January 31, 2014, which would have been received by the award holders had all award holders under the Old Plans, New Plan and 1990 Plan exercised their awards as of that date.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes stock option activity under the Stock Award Plans:

	Employee and Director Stock Award Plans				
	Number of Shares Subject To Option	Stock Award Exercise Price Range Per Share	Weighted Average Exercise Price	Other Share Awards⁽¹⁾	Weighted Average Grant Date Value
Balance January 29, 2011	6,687,058	\$0.98-\$14.32	\$6.80	192,822	\$4.19
Granted	310,000	1.73-2.31	2.02	279,898	1.63
Exercised	—	—	—	(110,276)	2.57
Forfeited	(12,925)	1.16-5.50	2.99	—	0.00
Canceled	(857,282)	3.50-14.32	8.82	—	0.00
Balance January 28, 2012	6,126,851	\$0.98-\$14.32	\$6.28	362,444	\$2.71
Granted	305,000	2.53-3.05	2.76	10,491	3.53
Exercised	(174,250)	0.98-3.50	3.31	(279,898)	1.63
Forfeited	(703,750)	0.98-2.31	2.15	—	0.00
Canceled	(889,942)	3.50-14.32	8.03	—	0.00
Balance February 2, 2013	4,663,909	\$0.98-\$14.32	\$6.45	93,037	\$6.04
Granted	285,000	3.48-4.87	4.74	11,620	4.30
Exercised	(1,477,450)	0.98-3.50	3.29	(93,716)	5.42
Forfeited	(305,000)	1.67-4.87	3.08	—	0.00
Canceled	(259,269)	3.50-14.32	8.45	—	0.00
Balance February 1, 2014	<u>2,907,190</u>	<u>\$1.73-\$14.32</u>	<u>\$8.07</u>	<u>10,941</u>	<u>\$9.50</u>

(1) Other Share Awards include deferred shares granted to Directors.

During Fiscal 2013, 2012 and 2011, the Company recognized expenses of approximately \$50,000, \$0 and \$13,000, respectively, for deferred shares issued to non-employee directors.

	Stock Option Exercises		
	2013	2012	2011
	(\$ in thousands)		
Cash received for exercise price	\$4,869	\$564	\$0
Intrinsic value	701	92	0

Defined Benefit Plans

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 and bonus at the time of retirement and number of years of service.

Prior to June 1, 2003, the Company had provided the Board of Directors with a noncontributory, unfunded retirement plan (“Director Retirement Plan”) that paid retired directors an annual retirement benefit.

For Fiscal 2013, Fiscal 2012 and Fiscal 2011, net periodic benefit cost recognized under both plans totaled approximately \$1.5 million, \$1.1 million, and \$0.7 million, respectively. The accrued pension liability for both plans was approximately \$16.3 million and \$17.6 million at February 1, 2014 and February 2, 2013, respectively, and is recorded within other long term liabilities. The accumulated benefit obligation for both plans was approximately \$16.1 million and \$17.4 million as of February 1, 2014 and February 2, 2013, respectively.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a summary of the Company's defined benefit pension plans as of the most recent actuarial calculations:

Obligation and Funded Status:

	<u>February 1, 2014</u>	<u>February 2, 2013</u>
	(\$ in thousands)	
Change in Projected Benefit Obligation:		
Benefit obligation at beginning of year.....	\$ 17,585	\$ 16,021
Service cost	110	90
Interest cost	657	638
Actuarial (gain)/loss	(1,936)	199
Benefits paid	(129)	(121)
Plan change	<u>0</u>	<u>758</u>
Projected Benefit obligation at end of year	<u>\$ 16,287</u>	<u>\$ 17,585</u>
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ —</u>
Funded status	(\$16,287)	(\$17,585)
Unrecognized prior service cost	1,300	2,021
Unrecognized net actuarial gain	<u>(2,280)</u>	<u>(346)</u>
Accrued benefit cost	<u>(\$17,267)</u>	<u>(\$15,910)</u>

Amounts recognized in the Consolidated Balance Sheets consist of:

	<u>February 1, 2014</u>	<u>February 2, 2013</u>
	(\$ in thousands)	
Current liability	(\$137)	(\$151)
Long term liability	(16,150)	(17,434)
Add: Accumulated other comprehensive (income) loss	<u>(980)</u>	<u>1,675</u>
Net amount recognized	<u>(\$17,267)</u>	<u>(\$15,910)</u>

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive (Income) Loss:

	<u>Fiscal Year</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(\$ in thousands)		
Net Periodic Benefit Cost:			
Service cost	\$ 110	\$ 90	\$ 147
Interest cost	656	637	671
Amortization of prior service cost	721	342	342
Amortization of net gain	<u>(2)</u>	<u>(1)</u>	<u>(448)</u>
Net periodic benefit cost	<u>\$1,485</u>	<u>\$1,068</u>	<u>\$ 712</u>

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other Changes in Benefit Obligations Recognized in Other Comprehensive (Income) Loss:

Net prior service cost recognized as a component of net periodic benefit cost	\$ (721)	(\$342)
Net actuarial gain recognized as a component of net periodic benefit cost	2	1
Prior service cost arising during the period.....	0	758
Net actuarial losses / (gains) arising during the period	<u>(1,936)</u>	<u>200</u>
	(2,655)	617
Income tax effect.....	<u>—</u>	<u>—</u>
Total recognized in other comprehensive (income) loss	<u>(\$2,655)</u>	<u>\$ 617</u>
Total recognized in net periodic benefit cost and other comprehensive (income) loss.....	<u>(\$1,170)</u>	<u>\$ 1,685</u>

The pre-tax components of accumulated other comprehensive income, which have not yet been recognized as components of net periodic benefit cost as of February 1, 2014, February 2, 2013 and January 28, 2012 and the tax effect are summarized below.

	<u>February 1, 2014</u>	<u>February 2, 2013</u>	<u>January 28, 2012</u>
	(\$ in thousands)		
Net unrecognized actuarial gain	(\$2,280)	(\$346)	(\$547)
Net unrecognized prior service cost	<u>1,300</u>	<u>2,021</u>	<u>1,605</u>
Accumulated other comprehensive (income) loss.....	<u>(980)</u>	<u>1,675</u>	<u>1,058</u>
Tax expense.....	<u>1,099</u>	<u>1,099</u>	<u>1,099</u>
Accumulated other comprehensive loss.....	<u>\$ 119</u>	<u>\$ 2,774</u>	<u>\$ 2,157</u>

In Fiscal 2014, approximately \$721,000 of net unrecognized prior service cost and approximately \$143,000 of the net unrecognized actuarial gain, recorded as components of accumulated other comprehensive loss at February 1, 2014, will be recognized as components of net periodic benefit cost.

Assumptions:

	<u>Fiscal Year</u>		
	<u>2013</u>	<u>2012</u>	
Weighted-average assumptions used to determine benefit obligation:			
Discount rate	4.25%	3.75%	
Salary increase rate	4.00%	4.00%	
Measurement date	Feb 1, 2014	Feb 2, 2013	
	<u>Fiscal Year</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	3.75%	4.00%	4.00%
Salary increase rate	4.00%	4.00%	4.00%

The discount rate is based on the rates implicit in high-quality fixed-income investments currently available as of the measurement date. The Citigroup Pension Discount Curve (CPDC) rates are intended to represent the spot rates implied by the high quality corporate bond market in the U.S. The projected benefit payments attributed to the projected benefit obligation have been

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

discounted using the CPDC mid-year rates and the discount rate is the single constant rate that produces the same total present value.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Year</u>	<u>Pension Benefits</u> <u>(\$ in thousands)</u>
2014.....	137
2015.....	127
2016.....	197
2017.....	1,079
2018.....	1,201
2019–2023	5,904

Accumulated Other Comprehensive Income (Loss)

	<u>Pension and</u> <u>Other Benefit</u> <u>(\$ in thousands)</u>
February 2, 2013.....	(\$2,774)
Other comprehensive income before reclassifications	1,936
Amounts reclassified from AOCI ⁽¹⁾	719
February 1, 2014.....	<u>(\$119)</u>

⁽¹⁾ Represents amortization of pension and other benefit liabilities, which is recorded in SG&A expenses on the Consolidated Statements of Income.

Note 8. Shareholders' Equity

During Fiscal 2013, including shares purchased as part of a tender offer, the Company repurchased approximately 1 million shares of common stock for an aggregate purchase price of \$5.4 million. As of February 1, 2014, the Company has approximately \$19.4 million available for purchase under their repurchase program.

In the fourth quarter of Fiscal 2012, the Company declared and paid a special cash dividend of \$0.47 per common share. On November 27, 2012, Wells Fargo Bank, National Association (the "Administrative Agent") and certain other parties to the amended credit facility agreed to consent to the use of a portion of the proceeds received from the sale of real property owned by Record Town, Inc. to pay the special cash dividend.

Note 9. Related Party Transactions

The Company leases its 181,300 square foot distribution center/office facility in Albany, New York from Robert J. Higgins, its Chairman, Chief Executive Officer and largest shareholder, under three capital leases that expire in the year 2015. The original distribution center/office facility was occupied in 1985.

Under the three capital leases, dated April 1, 1985, November 1, 1989 and September 1, 1998, the Company paid Mr. Higgins an annual rent of \$2.3 million, \$2.3 million and \$2.2 million in Fiscal 2013, 2012 and 2011 respectively. Pursuant to the terms of the lease agreements, effective January 1, 2002 and every two years thereafter, rental payments will increase in accordance with the biennial increase in the Consumer Price Index. Under the terms of the lease agreements, the Company is responsible for property taxes, insurance and other operating costs with respect to the premises. Mr. Higgins does not have any future obligation for principal and interest. None of the leases contain any real property purchase options at the expiration of its term.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company leases one of its retail stores from Mr. Higgins under an operating lease. Annual rental payments under this lease were \$40,000 in Fiscal 2013, 2012 and 2011. Under the terms of the lease, the Company pays property taxes, maintenance and a contingent rental if a specified sales level is achieved. Total additional charges for the store, including contingent rent, were approximately \$3,800, \$6,400 and \$6,900 in Fiscal 2013, 2012 and 2011 respectively.

Note 10. Subsequent Events

In the first quarter of Fiscal 2014, the Company declared and paid a special cash dividend of \$0.50 per common share. No cash dividends were paid in 2013 or 2011. The Company's Credit Facility contains certain restrictions related to the payment of cash dividends, including limiting the amount of dividends to \$5.0 million annually. On March 5, 2014, Wells Fargo Bank, National Association (the "Administrative Agent") and certain other parties to the amended credit facility agreed to consent to the special cash dividend.

Note 11. Quarterly Financial Information (Unaudited)

	Fiscal 2013 Quarter Ended				
	Fiscal 2013	February 1, 2014	November 2, 2013	August 3, 2013	May 4, 2013
	(\$ in thousands, except for per share amounts)				
Net sales.....	\$393,659	\$139,185	\$ 79,772	\$ 80,768	\$93,934
Gross profit.....	147,904	49,361	30,740	32,014	35,789
Net income (loss).....	<u>\$ 8,277</u>	<u>\$ 12,533</u>	<u>(\$3,315)</u>	<u>(\$2,539)</u>	<u>\$ 1,598</u>
Basic income (loss) per share.....	<u>\$ 0.25</u>	<u>\$ 0.39</u>	<u>(\$0.10)</u>	<u>(\$0.08)</u>	<u>\$ 0.05</u>
Diluted income (loss) per share.....	<u>\$ 0.25</u>	<u>\$ 0.39</u>	<u>(\$0.10)</u>	<u>(\$0.08)</u>	<u>\$ 0.05</u>

	Fiscal 2012 Quarter Ended				
	Fiscal 2012	February 2, 2013	October 27, 2012	July 28, 2012	April 28, 2012
	(\$ in thousands, except for per share amounts)				
Net sales.....	\$458,544	\$163,449	\$ 91,769	\$ 91,038	\$112,287
Gross profit.....	172,122	59,752	34,737	35,818	41,815
Net income (loss).....	<u>\$ 33,734</u>	<u>\$ 35,012</u>	<u>(\$2,188)</u>	<u>(\$1,886)</u>	<u>\$ 2,796</u>
Basic income (loss) per share.....	<u>\$ 1.07</u>	<u>\$ 1.11</u>	<u>(\$0.07)</u>	<u>(\$0.06)</u>	<u>\$ 0.09</u>
Diluted income (loss) per share.....	<u>\$ 1.06</u>	<u>\$ 1.09</u>	<u>(\$0.07)</u>	<u>(\$0.06)</u>	<u>\$ 0.09</u>

During the fourth quarter of Fiscal 2012, the Company recorded a gain on the sale of an asset of \$22.8 million. See Note 3 in the Notes to Consolidated Financial Statements for further detail regarding the gain.

Index to Exhibits
Document Number and Description

Exhibit No.

- 3.1 Restated Certificate of Incorporation—incorporated herein by reference to Exhibit 3.1 to the Company’s Annual Report on Form 10-K for the year ended January 29, 1994. Commission File No. 0-14818.
- 3.2 Certificate of Amendment to the Certificate of Incorporation—incorporated herein by reference to Exhibit 3.1 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended October 29, 1994. Commission File No. 0-14818.
- 3.3 Certificate of Amendment to the Certificate of Incorporation—incorporated herein by reference to Exhibit 3.4 to the Company’s Annual Report on Form 10-K for the year ended January 31, 1998. Commission File No. 0-14818.
- 3.4 Amended By-Laws—incorporated herein by reference to Exhibit 3.4 to the Company’s Annual Report on Form 10-K for the year ended January 29, 2000. Commission File No. 0-14818.
- 3.5 Certificate of Amendment to the Certificate of Incorporation—incorporated herein by reference to Exhibit 3.5 to the Company’s Registration Statement on Form S-4, No. 333-75231.
- 3.6 Certificate of Amendment to the Certificate of Incorporation—incorporated herein by reference to Exhibit 3.6 to the Company’s Registration Statement on Form S-4, No. 333-75231.
- 3.7 Certificate of Amendment to the Certificate of Incorporation—incorporated herein by reference to Exhibit 4.2 to the Company’s Current Report on Form 8-K filed August 15, 2000. Commission File No. 0-14818.
- 3.8 Certificate of Amendment to the Certificate of Incorporation—incorporated herein by reference to Exhibit 2 to the Company’s Current Report on Form 8-A filed August 15, 2000. Commission File No. 0-14818.
- 4.1 Credit Agreement dated January 5, 2006, between Trans World Entertainment Corporation and Bank of America N.A.—incorporated by reference to Exhibit 99.2 to the Company’s Current Report on Form 8-K filed January 10, 2006. Commission File No. 0-14818.
- 4.2 First Amendment to Credit Agreement between Trans World Entertainment Corporation and Bank of America N.A.—incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed March 29, 2006. Commission File No. 0-14818.
- 4.3 Second Amendment to Credit Agreement between Trans World Entertainment Corporation and Bank of America N.A.—incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed October 23, 2006. Commission File No. 0-14818.
- 4.4 Amended and Restated Credit Agreement between Trans World Entertainment Corporation and Bank of America N.A.—incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed April 15, 2010. Commission File No. 0-14818.
- 4.5 First Amendment to Credit Agreement between Trans World Entertainment Corporation and Wells Fargo; National Association dated May 4, 2012—incorporated by reference to Exhibit 4.1 to the Company’s Current Report on Form 8-K filed May 7, 2012. Commission File No. 0-14818.

Exhibit No.

- 4.6 Consent dated November 27, 2012, pursuant to Amended and Restated Credit Agreement, dated as of April 15, 2010 by and between Trans World Entertainment Corporation and Wells Fargo Bank, National Association—incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed November 27, 2012. Commission File No. 0-14818.
- 4.7 Consent dated March 5, 2014, pursuant to Amended and Restated Credit Agreement, dated as of April 15, 2010 by and between Trans World Entertainment Corporation and Wells Fargo Bank, National Association—incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed March 7, 2014. Commission File No. 0-14818.
- 10.1 Lease, dated April 1, 1985, between Robert J. Higgins, as Landlord, and Record Town, Inc. and Trans World Music Corporation, as Tenant and Amendment thereto dated April 28, 1986—incorporated herein by reference to Exhibit 10.3 to the Company’s Registration Statement on Form S-1, No. 33-6449.
- 10.2 Second Addendum, dated as of November 30, 1989, to Lease, dated April 1, 1985, among Robert J. Higgins, and Trans World Music Corporation, and Record Town, Inc., exercising five year renewal option—incorporated herein by reference to Exhibit 10.2 to the Company’s Annual Report on Form 10-K for the year ended February 3, 1990. Commission File No. 0-14818.
- 10.3 Lease, dated November 1, 1989, between Robert J. Higgins, as Landlord, and Record Town, Inc. and Trans World Music Corporation, as Tenant—incorporated herein by reference to Exhibit 10.3 to the Company’s Annual Report on Form 10-K for the year ended February 2, 1991. Commission File No. 0-14818.
- 10.5 Lease dated September 1, 1998, between Robert J. Higgins, as Landlord, and Record Town, Inc. and Trans World Music Corporation, as Tenant, for additional office space at 38 Corporate Circle—incorporated herein by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 1998. Commission File No. 0-14818.
- 10.6 Trans World Music Corporation 1990 Stock Option Plan for Non-Employee Directors, as amended and restated—incorporated herein by reference to Annex A to Trans World’s Definitive Proxy Statement on Form 14A filed as of May 19, 2000. Commission File No. 0-14818.
- 10.7 Trans World Entertainment Corporation 1994 Stock Option Plan—incorporated herein by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended July 30, 1994. Commission File No. 0-14818.
- 10.8 Form of Indemnification Agreement dated May 1, 1995 between the Company and its officers and directors incorporated herein by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 1995. Commission File No. 0-14818.
- 10.9 Trans World Entertainment Corporation Supplemental Executive Retirement Plan, as amended—incorporated herein by reference to Exhibit 10.1 to the Company’s Form 8-K filed on July 16, 2012. Commission File No. 0-14818.
- 10.10 Employment Agreement, dated as of December 26, 2008, between the Company and Robert J. Higgins. Incorporated herein by reference to Exhibit 10.1 to the Company’s Form 8-K filed on December 29, 2008. Commission File No. 0-14818.
- 10.11 Trans World Entertainment Corporation 2005 Long Term Incentive and Share Award Plan incorporated herein by reference to Appendix A to Trans World Entertainment Corporation’s Definitive Proxy Statement on Form 14A filed as of May 11, 2005. Commission File No. 0-14818.

Exhibit No.

- 10.12 Trans World Entertainment Corporation Executive Officers Bonus Plan—incorporated herein by reference to Appendix A to Trans World Entertainment Corporation’s Definitive Proxy Statement on Form 14A filed as of May 20, 2009. Commission File No. 0-14818.
- *21 Significant Subsidiaries of the Registrant.
- *23 Consent of KPMG LLP.
- *31.1 Certification of Chief Executive Officer dated April 17, 2014, relating to the Registrant’s Annual Report on Form 10-K for the year ended February 1, 2014, pursuant to Rule 13a-14(a) or Rule 15a-14(a).
- *31.2 Certification of Chief Financial Officer dated April 17, 2014, relating to the Registrant’s Annual Report on Form 10-K for the year ended February 1, 2014, pursuant to Rule 13a-14(a) or Rule 15a-14(a).
- **32 Certification of Chief Executive Officer and Chief Financial Officer of Registrant, dated April 17, 2014, pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 relating to the Registrant’s Annual Report on Form 10-K for the year ended February 1, 2014.

* Filed herewith

** Furnished herewith

TRANS WORLD ENTERTAINMENT CORPORATION
SIGNIFICANT SUBSIDIARIES OF THE REGISTRANT

<u>Name of Significant Subsidiary</u>	<u>State of Incorporation</u>	<u>Subsidiary Trade Names</u>
Record Town, Inc.	New York	Record Town, Inc. CD World f.y.e. Games Manifest Record and Tape Traders Streetside Records Specs Spin Street fye.com warehouse.com secondspin.com
Record Town USA, LLC	Delaware	Record Town USA, LLC f.y.e. (For Your Entertainment) Coconuts Saturday Matinee f.y.e. movies Second Spin Wherehouse Music Suncoast Motion Pictures Sam Goody
Record Town Utah, LLC	New York	Record Town Utah, LLC f.y.e. Superstore
Trans World New York, LLC	New York	Trans World New York, LLC
Trans World Florida, LLC	Florida	Trans World Florida, LLC

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Trans World Entertainment Corporation:

We consent to incorporation by reference in the registration statements No. 333-194933 on Form S-1 and Nos. 33-40399, 33-51094, 33-51516, 33-59319, 333-75231, 333-81685, 333-101532, and 333-128210 on Form S-8 of our reports dated April 17, 2014, with respect to the consolidated balance sheets of Trans World Entertainment Corporation and subsidiaries as of February 1, 2014, and February 2, 2013, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity and cash flows for each of the fiscal years in the three-year period ended February 1, 2014, and the effectiveness of internal control over financial reporting as of February 1, 2014, which reports appear in the Annual Report on Form 10-K of Trans World Entertainment Corporation and subsidiaries for the fiscal year ended February 1, 2014.

/s/ KPMG LLP

Albany, New York
April 17, 2014

**CHIEF EXECUTIVE OFFICER CERTIFICATION
PURSUANT TO SECTION 302 OF SARBANES OXLEY ACT 2002**

I, Robert J. Higgins, certify that:

- (1) I have reviewed this report on Form 10-K of Trans World Entertainment Corporation (“the Registrant”);
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- (4) The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
- (5) The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors(or persons performing equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: April 17, 2014

/s/ ROBERT J. HIGGINS
(Chairman and Chief Executive Officer
Trans World Entertainment Corporation)

**CHIEF FINANCIAL OFFICER CERTIFICATION
PURSUANT TO SECTION 302 OF SARBANES OXLEY ACT 2002**

I, John Anderson, certify that:

- (1) I have reviewed this report on Form 10-K of Trans World Entertainment Corporation (“the Registrant”);
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
- (4) The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
- (5) The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors(or persons performing equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: April 17, 2014

/s/ JOHN ANDERSON
(Chief Financial Officer
Trans World Entertainment Corporation)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Trans World Entertainment Corporation (the “Registrant”) on Form 10-K for the period ending February 1, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), we, Robert J. Higgins, Chairman and Chief Executive Officer of the Registrant and John Anderson, Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ ROBERT J. HIGGINS

Chairman and Chief Executive Officer

April 17, 2014

/s/ JOHN ANDERSON

Chief Financial Officer

April 17, 2014

This certification shall not be deemed to be “filed” for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, and will not be incorporated by reference into any registration statement filed under the Securities Act of 1933, as amended, unless specifically identified as being incorporated therein by reference.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Trans World Entertainment and will be retained by Trans World Entertainment and furnished to the Securities and Exchange Commission or its staff upon request.



TRANS WORLD ENTERTAINMENT CORPORATION
38 Corporate Circle
Albany, New York 12203
(518) 452-1242

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Date and Time Wednesday, July 2, 2014, at 10:00 A.M., EDT

Place Albany Country Club
300 Wormer Road
Voorheesville, New York 12186

Items of Business

- (1) To elect six Directors to serve one year terms and until their successors are chosen and qualified;
- (2) To approve the Amended and Restated 2005 Long Term Incentive Plan;
- (3) To approve the 2014 Trans World Entertainment Executive Bonus Plan;
- (4) To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Record Date Shareholders of record as of May 16, 2014 are eligible to vote.

Proxy Voting A proxy and return envelope, not requiring postage if mailed in the United States, are enclosed for your convenience. Please complete and return your proxy card as promptly as possible. All shareholders are cordially invited to attend the Annual Meeting. Whether or not you plan to attend the meeting, your vote is important. Prompt return of the proxy will assure a quorum is present at the annual meeting and save the Company expense.

By order of the Board of Directors,

Edwin J. Sapienza,
Secretary

May 30, 2014

Proxy Statement

TRANS WORLD ENTERTAINMENT CORPORATION
38 Corporate Circle
Albany, New York 12203
(518) 452-1242

PROXY STATEMENT

This Proxy Statement is furnished to the shareholders of Trans World Entertainment Corporation, a New York corporation (the “Company”), in connection with the solicitation of proxies by the Board of Directors for use at the Annual Meeting of Shareholders of the Company to be held on July 2, 2014 (the “Annual Meeting”), and any adjournment or adjournments thereof. A copy of the notice of meeting accompanies this Proxy Statement. It is anticipated that the mailing of this Proxy Statement and the form of proxy/voting instruction card will commence on May 30, 2014.

As permitted by rules of the Securities and Exchange Commission (“SEC”), we are making our proxy material, which includes our notice of annual meeting, proxy statement and Annual Report on Form 10-K, available to our shareholders over the Internet. An electronic version of this proxy statement and the Company’s Annual Report on Form 10-K are available at www.envisionreports.com/TWEC.

VOTING SECURITIES

The Company has only one class of voting securities, its common stock, par value \$.01 per share (the “Common Stock”). On May 16, 2014, the record date, 31,923,021 shares of Common Stock were outstanding. Each shareholder of record at the close of business on the record date will be entitled to one vote for each share of Common Stock owned on that date, as to each matter presented at the Annual Meeting.

QUORUM AND TABULATION OF VOTES

The By-Laws of the Company provide that a majority of the shares of our Common Stock entitled to vote at the Annual Meeting, present in person or by proxy, shall constitute a quorum at the Annual Meeting of Shareholders of the Company. An inspector from Computershare appointed by the Company will determine the presence of a quorum and will certify and tabulate the votes. Shares of Common Stock represented by a properly signed and returned proxy are considered as present at the Annual Meeting for purposes of determining a quorum. Shareholders of record who are present at the Annual Meeting, in person or by proxy, and who abstain from voting, including brokers holding customers’ shares of record who cause abstentions to be recorded at the Annual Meeting, will be included in the number of shareholders present at the Annual Meeting for purposes of determining whether a quorum is present. However, these shares will not be taken into account in determining the outcome of any of the proposals. A shareholder (including a broker) who does not give authority to a proxy to vote, or withholds authority to vote, on a certain proposal will not be considered present and entitled to vote on that proposal. A broker non-vote occurs when a bank or broker holding shares of a beneficial stockholder does not vote on a particular proposal because it has not received instructions from the beneficial stockholder and the bank or broker does not have discretionary voting power for that particular item.

If you are a beneficial owner and hold your shares in the name of a bank, broker or other holder of record and do not return the voting instruction card, the broker or other nominee will vote your shares on each matter at the Annual Meeting for which he or she has the requisite discretionary authority. If a shareholder does not give instructions to its broker as to how to vote the shares, the broker has authority under New York Stock Exchange rules to vote those shares for or against “routine” proposals. Brokers cannot vote on their customers’ behalf on “non-routine” proposals. Under these rules, “Item 1—Election of Directors”, “Item 2—To approve the Amended and Restated 2005 Long Term Incentive Plan” and “Item 3—To approve the 2014 Trans World Entertainment Executive Bonus Plan” are considered “non-routine” proposals. We are subject to

these rules even though shares of our common stock are traded on the NASDAQ Global Select Market. If a broker votes shares that are unvoted by its customers for or against a “routine” proposal, these shares are counted for the purpose of establishing a quorum and also will be counted for the purpose of determining the outcome of “routine” proposals. If a broker does not receive voting instructions as to a non-routine proposal, or chooses to leave shares unvoted on a routine proposal, a “broker non-vote” occurs and those shares will not be counted for determining the outcome of those proposals. Shares that are subject to broker non-votes are considered not entitled to vote on the particular proposal, and effectively reduce the number of shares needed to approve that proposal.

Pursuant to the Company’s By-Laws, “Item 1—Election of Directors” is determined by the affirmative vote of a plurality of the shares of our Common Stock cast at the Annual Meeting, in person or by proxy on the proposal. “Item 2—To approve the Amended and Restated 2005 Long Term Incentive Plan” and “Item 3—To approve the 2014 Trans World Entertainment Executive Bonus Plan” is determined by a majority vote cast at the Annual General Meeting, in person or by proxy, on the proposals. Under applicable New York law, in determining whether such nominees have received the requisite number of affirmative votes, abstentions will have no effect on the outcome of the vote. With respect to the election of directors, votes may be cast “for” all nominees, “withheld” from all nominees, or “withheld” specifically from identified nominees. Brokers do not have discretionary voting power on this proposal.

As of the date of this proxy statement, our Board of Directors knows of no matters that will be presented for consideration at the annual meeting other than as described in this proxy statement. If any other matters shall properly come before the annual meeting or any adjournments or postponements of the annual meeting and shall be voted on, the enclosed proxies will be deemed to confer discretionary authority on the individuals named as proxies therein to vote the shares represented by such proxies as to any of those matters. The persons named as proxies intend to vote in accordance with the recommendation of our Board of Directors or otherwise use their judgment.

A proxy may be revoked at any time prior to the voting at the Annual Meeting by submitting a later dated proxy (including a proxy by telephone), by giving timely written notice of such revocation to the Secretary of the Company or by attending the Annual Meeting and voting in person. However, if you hold any shares of Common Stock in “street name,” (that is through a bank, broker or other nominee) you may not vote these shares in person at the Annual Meeting unless you bring with you a legal proxy from the holder of record of such shares.

The Company will pay the costs of soliciting, preparing, printing and mailing this Notice of Annual Meeting of Stockholders and Proxy Statement, the enclosed proxy card and the Company’s 2013 Annual Report to Stockholders. In accordance with the regulations of the SEC, we also reimburse brokerage firms and other custodians, nominees and fiduciaries for their reasonable expenses incurred in connection with their forwarding of proxies and proxy solicitation materials to beneficial owners of our Common Stock as of the record date. The solicitation of proxies will be conducted primarily by mail, but may also include the Internet, telephone, facsimile or oral communications by directors, officers or regular employees of the Company acting without special compensation. The Company will also request persons, firms and corporations holding shares in their names, or in the names of their nominees, which are beneficially owned by others, to send or cause to be sent proxy materials to, and obtain proxies from, such beneficial owners, and, on request, will reimburse such holders for their reasonable expenses in so doing.

PRINCIPAL SHAREHOLDERS

The only persons known to the Board of Directors to be the beneficial owners of more than five percent of the outstanding shares of the Common Stock as of May 16, 2014, the record date, are indicated below:

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Robert J. Higgins 38 Corporate Circle Albany, New York 12203	15,532,462 ⁽¹⁾	47.3%
Lloyd I. Miller, III..... 222 Lakeview Avenue West Palm Beach	5,448,102 ⁽²⁾	17.1%
Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, California 90401	2,472,126 ⁽³⁾	7.7%
Nantahala Capital Management, LLC..... 100 First Stamford Place, 2nd Floor Stamford, CT 06902	1,867,535 ⁽⁴⁾	5.9%

(1) Information is as of May 16, 2014, as provided by the holder. Includes 925,000 shares that may be acquired within 60 days of May 16, 2014, 300,550 shares owned by the wife of Robert J. Higgins and 137,500 shares owned by a foundation controlled by Robert J. Higgins, and excludes 1,271,095 shares owned by certain other family members of Robert J. Higgins who do not share his residence. Mr. Robert Higgins disclaims beneficial ownership with respect to those shares owned by family members other than his wife.

(2) Based on Form 4, filed May 2, 2014 by Lloyd Miller, III.

(3) Based on Form 13G/A, filed February 10, 2014, by Dimensional Fund Advisors Inc.

(4) Based on Form 13G/A, filed February 14, 2014 by Nantahala Capital Management, LLC.

Mr. Robert Higgins, who beneficially owns 15,532,462 shares of Common Stock as of the record date (approximately 47.3% of all outstanding shares), has advised the Company that he presently intends to vote for the election of the nominees for Directors named under “Item 1—Election of Directors”, for “Item 2—To approve the Amended and Restated 2005 Long Term Incentive Plan” and “Item 3—To approve the 2014 Trans World Entertainment Executive Bonus Plan”.

Item 1. Election of Directors

The Board of Directors (also referred to herein as the “Board”) has nominated six candidates for election as directors to hold office (subject to the Company’s By-Laws) for a one-year term expiring at the 2015 annual meeting of stockholders (the “2015 Meeting”) and until their successors have been elected and qualified.

The nominees will be elected by a plurality vote of the outstanding shares of Common Stock cast at the Annual Meeting.

If the nominees listed below should become unavailable for any reason, which management does not anticipate, the proxy will be voted for any substitute nominee who may be selected by the Nominating and Corporate Governance Committee of the Board prior to, or at the Annual Meeting or if no substitute is selected prior to or at the Annual Meeting, for a motion to reduce the membership of the Board to the number of nominees available. The information concerning the nominees and their security holdings has been furnished by them to the Company.

The biographies of each of the Directors contain applicable information regarding the person’s service as a director, business, educational, and other professional experience, director positions held currently or at any time during the last five years, and the experiences, qualifications, attributes or skills that cause the Board to determine that the person should serve as a director for the Company. The Company believes that the backgrounds and qualifications of its Directors, considered as a group, should provide the Company and Board with diverse business and professional capabilities, along with the experience, knowledge and other abilities that will allow the Board to fulfill its responsibilities.

Nominees for Election as Directors

Robert J. Higgins, Chairman of the Board, founded the Company in 1972, and he has participated in its operations since 1973. Mr. Robert Higgins has served as Chairman and Chief Executive Officer of the Company for more than the past five years. He is also the Company's principal shareholder. See "PRINCIPAL SHAREHOLDERS." As founder and Chief Executive Officer of the Company for over 40 years, Mr. Robert Higgins brings an extraordinary understanding of our company's business, history and organization. With his day-to-day leadership and intimate knowledge of our business and operations, Mr. Robert Higgins provides the board with invaluable insight into the operations of our company.

Martin Hanaka, recently was the Interim Chief Executive Officer of Guitar Center, Inc. from January 2013 to April 2013 and a board member thru April 2014. Previously, Mr. Hanaka served as the Chairman of Golfsmith International Holdings, Inc. from April 2007 to November 2012 and was the Chief Executive Officer from June 2008 to November 2012. From September 1998 to August 2003, Mr. Hanaka served as the Chief Executive Officer of The Sports Authority Inc. and served as Chairman from November 1999 through June 2004. From August 1994 to October 1997, he served as the President and Chief Operating Officer of Staples Inc. and served as a member of the Board of Directors. He has served on a dozen public and private boards of directors, including the Company's from 1998 through 2009. In addition to significant experience providing oversight as a director in various capacities, Mr. Hanaka contributes substantial experience in the retail sector.

Robert E. Marks has been the President of Marks Ventures, LLC, a private equity investment firm since 1994. Mr. Marks is currently a director of two other public companies—Denny's Corporation ("Denny's") where he served as Chairman of the Board of Directors from 2004 to 2006; and Emeritus Corporation, as well as two private Companies—Harris Environmental Systems LLC and Pacific Tool LLC. In addition, he is a member of the Board of Trustees of the Greenwich, Connecticut Public Library, a member of the Board of Trustees of the Greenwich Field Club, a member of the Board of Trustees of The International Rescue Committee and a member of Stanford University's Alumni Committee on Trustee Nominations. Mr. Marks has 32 years of experience in private equity investments, and thus extensive finance, business analysis, investment and executive compensation experience to share with the Board.

Dr. Joseph G. Morone has been the President and CEO of Albany International Corp since January 2006 and President since August 2005. From August 1997 to July 2005 he was the President of Bentley University. Previously, Dr. Morone was the Dean of Rensselaer Polytechnic Institute's Lally School of Management and Technology from July 1993 to July 1997. Before joining the School of Management in 1988, Dr. Morone was a senior associate for the Keyworth Company, a consulting firm specializing in technology management and science policy. Dr. Morone also served in the White House Office of Science and Technology Policy and spent seven years at General Electric Company's Corporate Research and Development. Dr. Morone also serves on the Board of Directors of Albany International Corp. and on the Board of Trustees of the University System of New Hampshire. Dr. Morone has executive leadership experience at public companies and academic institutions, with an expertise in risk management and strategic planning.

Michael Nahl was Executive Vice President and Chief Financial Officer of Albany International Corp. from April 2005 until his retirement in September 2009. Mr. Nahl is currently a director of Lindsay Corporation and was a member of JPMorgan Chase and Company's Regional Advisory Board from 1996 through 2010. Mr. Nahl has broad and thorough knowledge on accounting, disclosure, risk management, auditing and finance matters, as well as operational and strategic experience to share with our Board.

Michael B. Solow is the Co-Chairman and Managing Partner of Kaye Scholer LLP, an international law firm based in New York City, where he has practiced since January 2001 and is currently a member of the firm's Executive Committee. Prior to joining Kaye Scholer LLP, Mr. Solow was a Partner and Practice Manager for the Financial Services Practice at Hopkins & Sutter, a Chicago, Illinois law firm. Mr. Solow has previously served on other corporate boards, including Camelot Music, Inc. Mr. Solow provides the Board with extensive legal and management

experience, particularly his expertise in corporate finance and his experience in law firm management.

Executive Officers

The Company's executive officers (other than Mr. Robert Higgins whose biographical information is included under "Item 1 - Election of Directors" herein) are identified below.

John Anderson has been Chief Financial Officer of the Company since February 2013. Prior to being named Chief Financial Officer, Mr. Anderson was Acting Chief Financial Officer beginning July 2012. Prior to that, Mr. Anderson served in positions of increasing responsibility at Trans World for over 18 years, most recently serving as Controller since September 2006.

Bruce J. Eisenberg has been Executive Vice President of Real Estate since May 2001. He added the title of Executive Vice President of Store Operations in 2011. He joined the Company in August of 1993 as Vice President of Real Estate and was named Senior Vice President of Real Estate in May 1995. Prior to joining the Company, Mr. Eisenberg was responsible for leasing, finance and construction of new regional mall development at The Pyramid Companies.

Mark Higgins has been Acting Senior Vice President of Merchandising and Marketing since November 2013. He has been at Trans World for 32 years, working in Store Construction, Store Services and Merchandising. He has been a member of the Merchandising department since 1994, including overseeing the video and video games departments the last 7 years. Mr. Mark Higgins is the son of our Chairman of the Board, Robert J. Higgins.

EQUITY OWNERSHIP BY DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the beneficial ownership of Common Stock as of May 16, 2014, by each Director and Named Executive Officer of the Company and all Directors and executive officers as a group. All shares listed in the table are owned directly by the named individuals, unless otherwise indicated therein. The Company believes that the beneficial owners have sole voting and investment power over their shares, except as otherwise stated or as to shares owned by spouses.

Name	Positions With the Company	Age	Year First Elected as Director/ Officer	Direct Ownership	Shares that may be acquired within 60 days of May 16, 2014	Total Shares Beneficially Owned	Percent of Class
Robert J. Higgins	Chairman of the Board and Chief Executive Officer	73	1973	14,607,462 ⁽¹⁾	925,000	15,532,462	47.3%
Martin Hanaka	Director	65	2013	—	—	—	*
Robert E. Marks	Nominee for Director	62	2012	—	7,500	7,500	*
Dr. Joseph G. Morone	Director	61	1997	24,088	—	24,088	*
Michael Nahl	Director	71	2011	11,620	11,250	22,870	*
Michael B. Solow	Director	55	1999	16,294	12,408	28,702	*
John Anderson	Chief Financial Officer	45	2012	—	24,300	24,300	*
Bruce J. Eisenberg	Executive Vice President— Real Estate	54	1995	21,184	350,000	371,184	1.2%
Mark Higgins	Acting SVP — Merchandising	49	2013	403,149 ⁽²⁾	37,250	440,399	1.4%
All Directors and Executive Officers as a group (9 persons)				15,083,797	1,367,708	16,451,505	49.4%

* Less than 1% of issued and outstanding common shares

- (1) Includes 300,550 shares owned by the wife of Robert J. Higgins and 137,500 shares owned by a foundation controlled by Robert J. Higgins, and excludes 1,271,095 shares owned by certain other family members of Robert J. Higgins who do not share his residence. Mr. Robert Higgins disclaims beneficial ownership with respect to those shares owned by family members other than his wife.
- (2) Excludes 154,600 shares owned by certain other family members of Mark Higgins who do not share his residence. Mr. Mark Higgins disclaims beneficial ownership with respect to those shares owned by family members.

CORPORATE GOVERNANCE

The Board of Directors

Meetings and Attendance

The Board of Directors held 17 meetings during the 2013 fiscal year. All of the Directors attended greater than 75% of the aggregate of: (i) the total number of meetings of the Board of Directors, and (ii) the total number of meetings held by all committees of the Board on which such Director served.

It is the policy of the Board that all Directors should be present at Company's Annual Meeting of Shareholders. All of the Directors then in office and standing for election attended the 2013 Annual Meeting of Shareholders.

Code of Ethics

The Board of Directors has adopted a Code of Ethics applicable to the Company's officers, employees, Directors and Consultants. The Code of Ethics is available on the Company's website, www.twec.com. A copy of the Code of Ethics is available in print to any stockholder who requests it, in writing to the Company's Corporate Secretary, Trans World Entertainment Corporation, 38 Corporate Circle, Albany, NY, 12203.

Guidelines for Evaluating Independence of Directors

The Board has determined that all of the Directors, other than Mr. Robert Higgins, are independent directors in accordance with the standards of the NASDAQ Stock Market and as

described below. The Nominating and Governance Committee as well as the Board annually reviews relationships that Directors may have with the Company to make a determination of whether there are any material relationships that would preclude a Director being independent.

The standards relied upon by the Board in affirmatively determining whether a director is “independent,” in compliance with the rules of the NASDAQ Stock Market, are comprised, of those objective standards set forth in the NASDAQ rules. The Board is responsible for ensuring that independent directors do not have a material relationship with the Company or its affiliates or any executive officer of the Company or his or her affiliates.

Presiding Director

The Board of Directors does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board of Directors as the Board of Directors believes it is in the best interest of the Company to make that determination through an ongoing evaluation of the position and direction of the Company and the membership and composition of the Board of Directors. The current Board of Directors has determined that having the roles of Chief Executive Officer and Chairman of the Board combined is in the best interest of the Company and its shareholders at this time. The current Chairman and Chief Executive Officer, Robert J. Higgins, is the founder of the Company and has been the CEO for over 40 years. The Board of Directors believes that the current structure makes the best use of the Chief Executive Officer’s extensive knowledge of the Company and its industry, and fosters greater communication between the Company’s management and the Board of Directors. Mr. Robert Higgins has advised the Company’s Board of Directors of plans to step down as Chief Executive Officer of the Company upon the completion of a process to choose his successor. Following his retirement as CEO, Mr. Robert Higgins will remain as Chairman of the Board.

The non-management directors annually elect one independent director to be the Presiding Director. Dr. Morone currently serves as the Presiding Director. The Presiding Director’s responsibilities are to:

- Preside over executive sessions of the non-management directors and at all meetings at which the Chairman is not present;
- Call meetings of the non-management directors as he or she deems necessary;
- Serve as liaison between the Chairman and the non-management directors;
- Approve agendas and schedules for Board meetings;
- Advise the Chairman of the Board’s informational needs;
- Communicate goals and objectives to the Chairman and Chief Executive Officer and the results of the evaluation of his performance; and
- Be available for consultation and communication if requested by major stockholders.

Committees of the Board of Directors

The Audit Committee

The Board of Directors has an Audit Committee whose current members are: Robert Marks (Chairman), Dr. Joseph Morone, and Michael Nahl. These Directors are, in the opinion of the Board of Directors, “independent” (as defined under the standards of the NASDAQ Stock Market) of management and free of any relationship that would interfere with their exercise of independent judgment as members of the Audit Committee. The Board of Directors has determined that Robert Marks is both independent and qualified as an Audit Committee financial expert as such term is defined under the rules and regulations promulgated by the Securities and Exchange Commission and applicable to this Proxy Statement. The Audit Committee held four meetings during the 2013 fiscal year. The Audit Committee’s responsibilities consist of recommending the selection of independent accountants, reviewing the scope of the audit conducted by such accountants, as well as the audit itself, and reviewing the Company’s audit activities and matters concerning financial reporting, accounting and audit procedures, related party transactions and policies generally. The

Audit Committee was established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is attached as Appendix A to the 2012 Proxy Statement.

The Compensation Committee

The Board of Directors has a Compensation Committee, consisting solely of independent Directors, whose current members are: Michael Solow (Chairman), Martin Hanaka, Dr. Joseph Morone and Michael Nahl. The Compensation Committee held two meetings during the 2013 fiscal year. The Compensation Committee formulates and gives effect to policies concerning salary, compensation, stock options and other matters concerning employment with the Company. The processes and procedures used for the consideration and determination of executive compensation are described in the section of this Proxy captioned “Compensation Overview.” The Board of Directors has adopted a written charter for the Compensation Committee, a copy of which is attached as Exhibit A to the 2013 Proxy Statement.

The Nominating and Corporate Governance Committee

The Board of Directors has a Nominating and Corporate Governance Committee, consisting solely of independent Directors, whose current members are: Dr. Joseph Morone (Chairman), Martin Hanaka, Robert Marks, Michael Nahl, and Michael Solow. The Nominating and Corporate Governance Committee held one meeting during the 2013 fiscal year. The Nominating Committee develops qualification criteria for Board members; interviews and screens individuals qualified to become Board members in order to make recommendations to the Board; and oversees the evaluation of executive management. The Committee seeks to select a Board that is strong in its collective knowledge of and diversity of skills and experience concerning retail operations, accounting and finance, management and leadership, vision and strategy, risk assessment and corporate governance. The Board of Directors has adopted a written charter for the Nominating and Corporate Governance Committee, a copy of which is attached as Exhibit B to the 2013 Proxy Statement.

The Nominating and Corporate Governance Committee will consider nominations submitted by Shareholders. To recommend a nominee, a Shareholder should write to the Company’s Secretary. To be considered by the Nominating and Corporate Governance Committee for nomination and inclusion in the Company’s Proxy Statement for its 2014 Annual Meeting of Shareholders, a Shareholder recommendation for a Director must be received by the Company’s Secretary no later than January 30, 2015. Any recommendation must include (i) the name and address of the candidate, (ii) a brief biographical description, including his or her occupation for at least the last five years, and a statement of the qualifications of the candidate, taking into account the qualification requirements summarized above, and (iii) the candidate’s signed consent to be named in the Proxy Statement and to serve as a Director if elected. The Nominating and Corporate Governance Committee may seek additional biographical and background information from any candidate which, to be considered must be received on a timely basis.

The process followed by the Nominating and Corporate Governance Committee to identify and evaluate candidates includes requests to Board members and others for recommendations, including a search firm or outside consultant, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the Nominating and Corporate Governance Committee and the Board. Assuming the appropriate biographical and background material is provided for candidates submitted by Shareholders, the Nominating and Corporate Governance Committee will evaluate those candidates by following substantially the same process, and applying substantially the same criteria, as for candidates submitted by Board members. While the Company does not have a formal diversity policy for Board of Director membership, the Nominating and Corporate Governance Committee and the Board of Directors, as a whole, seeks nominees or candidates to serve as directors that represent a variety of backgrounds and experience that will enhance the quality of the Board of Director’s deliberations and decisions. The Nominating and Corporate Governance Committee considers, among other factors, diversity with respect to viewpoint, skills and experience in its evaluation of candidates for Board of Director membership. Such diversity considerations are

discussed by the Nominating and Corporate Governance Committee in connection with the general qualifications of each potential nominee. The Nominating and Corporate Governance Committee did not receive any nominations from Shareholders for the 2014 Annual Meeting.

Board's Role in Risk Oversight

The Board has an active role, as a whole and also at the committee level, in overseeing management of the Company's risks. The Board regularly reviews information regarding the Company's credit, liquidity, and operations, as well as the risks associated with each. The Compensation Committee is responsible for overseeing the management of risks relating to the Company's executive compensation plans and arrangements. The Audit Committee oversees management of financial risks and potential conflicts of interest. The Nominating and Corporate Governance Committee manages risks associated with the independence of the Board. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board is regularly informed through committee reports about such risks.

Communications with the Board of Directors

The Board has established a process for Shareholders to communicate with members of the Board. The Chairman of the Nominating and Corporate Governance Committee, with the assistance of the Company's Secretary, will be primarily responsible for monitoring communications from Shareholders and providing copies or summaries of such communications to the other Directors, as he or she considers appropriate. Communications will be forwarded to all Directors if they relate to appropriate matters and may include suggestions or comments from the Chairman of the Nominating and Corporate Governance Committee. Any such communication must state the number of shares beneficially owned by the shareholder making the communication. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to personal grievances and matters as to which the Company tends to receive repetitive or duplicative communications. Shareholders who wish to send communications to the Board may do so by writing to:

Dr. Joseph Morone
 Chairman of the Nominating and Corporate Governance Committee
 c/o the Company's Secretary
 Trans World Entertainment Corporation
 38 Corporate Circle
 Albany, New York 12203

Compensation of Directors

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)⁽²⁾</u>	<u>Stock Awards (\$)</u>	<u>Option Awards (\$)</u>	<u>All Other Compensation (\$)</u>	<u>Total Compensation (\$)</u>
Robert J. Higgins ⁽¹⁾	—	—	—	—	—
Martin Hanaka.....	21,938	—	53,248 ⁽³⁾	—	75,186
Isaac Kaufman ⁽⁴⁾	178,688	—	—	150,000 ⁽⁴⁾	328,688
Robert Marks.....	101,111	—	—	—	101,111
Dr. Joseph G. Morone.....	124,000	—	—	—	124,000
Michael Nahl.....	69,000	50,000 ⁽⁵⁾	—	—	119,000
Michael B. Solow	119,500	—	—	—	119,500

- (1) Although Mr. Robert J. Higgins also serves as a member of the Board, he does not receive any additional compensation for such service. See "Summary Compensation Table."
- (2) Fees earned reflect the amount of cash received for the annual retainer, Board and committee meeting fees and cash received in lieu of Deferred Shares for fiscal 2013.
- (3) Amount represents the grant date fair value as computed in accordance with Accounting Standards Codification Topic 718, relating to the grant of stock options to a director in 2013. See Note 7 to the Consolidated Financial Statements in the Company's 2013 Annual Report on Form 10-K for the assumptions made in determining the value. Effective August 14, 2013, 15,000 stock options were awarded to Mr. Hanaka. The amount set forth in the table above does not necessarily reflect the value that will ultimately be realized with respect to the award.

- (4) Represents amount paid to Mr. Kaufman's estate in lieu of benefits accrued under the Company's former Director Retirement Plan. Mr. Kaufman was the only participant in the Director Retirement Plan which was terminated in 2003.
- (5) Amount represents the grant date fair value as computed in accordance with Accounting Standards Codification Topic 718, relating to the grant of deferred shares to a director in 2013. See Note 7 to the Consolidated Financial Statements in the Company's 2013 Annual Report on Form 10-K for the assumptions made in determining the value. Effective May 1, 2014, 11,620 deferred shares were awarded to Mr. Nahl.

Cash Compensation. Each Director who is not a salaried employee of the Company receives a \$12,500 retainer per annum plus a \$2,000 attendance fee for each Board meeting attended and a \$1,000 attendance fee for each committee meeting attended, except that the compensation for telephone conference meetings is \$1,000 and \$500 for board and committee telephone conference meetings, respectively. A committee chairperson receives an additional \$5,000 retainer per year and the Audit Committee chairperson receives a \$15,000 annual retainer. The Company may, in its discretion, determine to pay all or a portion of any annual retainer in shares of Common Stock, in lieu of cash and to make discretionary grants of Common Stock to non employee Directors from time to time. The Company has not elected to pay the annual retainer in shares or make discretionary grants during the past three years.

Directors Equity Awards. Currently, each Director is eligible to participate in the 2005 Long Term Incentive Plan. During the 2013 fiscal year, 15,000 options were granted to Mr. Hanaka in connection with his joining the Board. As of May 16, 2014, Mr. Hanaka, Mr. Nahl and Mr. Marks each hold 15,000 options. Previously, each outside Director was entitled to participate in the Company's 1990 Stock Option Plan for Non-Employee Directors (the "Directors Plan"), which expired in 2010. As of May 16, 2014, Director awards covering 9,655 shares of Common Stock have been granted and are outstanding under the Directors Plan.

An initial grant of 15,000 stock options is made to each new Director. In addition, on or about May 1 of each year, Directors are entitled to receive grants of deferred shares of Common Stock ("Deferred Shares") under the 2005 Long Term Incentive Plan representing \$80,000 in market value of Common Stock as of the date of grant. The Deferred Share grants vest on the date of grant. By December 31 two years prior to the grant year, each Director must elect to either receive cash in lieu of the deferred shares, Common Stock with respect to the Deferred Shares upon grant or to defer the receipt of such Common Stock until such person is no longer a Director, except that a cash election could be made only if the Board member held 4x the value of the annual retainer (\$50,000) in Common Stock, including Deferred Shares, based on the 120 day average closing price as of the prior December 1st. During the 2013 fiscal year, each non-executive Director received cash in lieu of Deferred Shares, except Mr. Nahl who received 11,620 shares representing a value of \$50,000. The Board of Directors is authorized, in its discretion, to grant additional stock options or Common Stock awards to Directors Plan participants.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This section describes the material elements of compensation for the Company's executive officers identified in the Summary Compensation Table below (who are referred to below as the "named executive officers"), the process by which such elements are determined and established by the Compensation Committee for the respective individuals and the principles and considerations underlying such determinations.

The compensation decisions for the named executive officers relating to 2013 took into account, among other things, the Company's consolidated financial results and the market price of the Company's stock. Discussions relating to the Company's consolidated financial results and operating performance for the year are contained in the Management's Discussion and Analysis section of the Company's 2013 Annual Report on Form 10-K.

Compensation Objectives and Approach

The objectives of our compensation programs are to attract, motivate, retain and reward executives and employees who will make substantial contributions toward the Company's meeting

the financial, operational and strategic objectives that we believe will build substantial value for the Company's stockholders. In an effort to achieve these objectives, the key elements of such programs consist of base salary, annual performance-based cash bonuses and share-based compensation.

Compensation Determination Process and Considerations

Mr. Robert Higgins makes proposals to the Compensation Committee regarding the elements of compensation for each of the named executive officers, including his own compensation, and the Compensation Committee has full authority and discretion to accept, reject or modify these proposals. The Compensation Committee's compensation determinations regarding the named executive officers are reviewed by the full Board. Generally, these determinations are made annually and occur at the Compensation Committee's regular meeting of each fiscal year occurring in April, at which cash bonuses and share-based awards, if any, relating to the named executive officers' performance during the preceding fiscal year are granted, and any base salary adjustments for the current year are implemented. In preparation for these meetings, Mr. Robert Higgins meets with the Compensation Committee Chairman to present his preliminary compensation proposals relating to the named executive officers to be addressed in the April meeting, based on the anticipated full-year financial results for the Company and its subsidiaries.

The Compensation Committee reviews and approves each element of compensation for the named executive officers. In establishing the levels and components of compensation for the named executive officers, the Compensation Committee, as a threshold matter, evaluates the overall performance for the year.

Key elements considered in the Compensation Committee's performance evaluations include corporate performance compared to the financial, operational and strategic goals for the applicable period, the officer's contributions to such performance and the officer's other accomplishments for the benefit of the Company during such period. In these evaluations, the Compensation Committee does not apply rigid formulas with respect to amount of compensation paid or the allocation between cash and non cash compensation, and it does not necessarily react to short-term changes in financial performance. Such evaluations also take into account the nature, scope and level of the named executive officer's responsibilities and the officer's level of experience, past levels of compensation and changes in such levels, tenure with the Company and other opportunities potentially available to such officer. In addition, the members of the Compensation Committee interact with each of the named executive officers in connection with the regular meetings of the Company's Board of Directors, which provides the Committee with an additional basis for evaluating such officer and his performance. Based on all of these general evaluative factors and the additional factors described below that vary among the named executive officers, the Compensation Committee makes its assessments and determines the components and levels of compensation for each such officer.

The Company has sought to structure its overall compensation program to contain an appropriate mix of long-term and short-term incentives that balance risk and potential reward in a manner that is appropriate to the circumstances and in the best interest of the Company's stockholders. In particular, equity-based awards are structured to vest over a number of years, which encourages employees to focus on long-term results. Moreover, both annual incentive bonus and performance-based equity awards are subject to discretionary reduction if determined appropriate by the Compensation Committee. The Company believes that these factors reduce any incentive that employees may have to take inappropriate risks. Accordingly, the Company believes that its compensation policies and practices encourage and incentivize the employees to improve results in a disciplined, focused manner, with a view toward long-term success.

Cash Compensation

The Company pays base salaries at levels it believes will attract and retain key employees and ensure that our compensation program is competitive. Base salaries for the named executive officers are established by the Compensation Committee, and reviewed by such Committee for potential adjustment on an annual basis, based on the considerations described in the preceding section. The

base salary amounts paid to the named executive officers during the 2013 fiscal year are shown in the Summary Compensation Table at page 14.

The annual incentive bonus plan, the results of which are shown in the Summary Compensation Table in the Non-Equity Incentive Plan Compensation column, provides for a cash bonus, dependent upon the level of achievement of the stated corporate goals, calculated as a percentage of the officer's base salary, with higher ranked executive officers being compensated at a higher percentage of base salary. The Compensation Committee approves the target annual incentive award for the Chief Executive Officer and, for each officer below the Chief Executive Officer level, bases the target on the Chief Executive Officer's recommendations. For the 2013 fiscal year, the performance goal adopted for annual bonuses was based on achieving earnings before interest, taxes, depreciation and amortization ("EBITDA") of \$17.1 million. Based on the performance of the Company, none of the named executive officers received cash bonuses for 2013. Mark Higgins earned a bonus of \$35,232 for the achievement of individual performance targets set prior to his being named a Named Executive Officer. The Company reserves the right to pay discretionary cash bonuses to the named executive officers. As such, Mr. Anderson was awarded a discretionary bonus of \$36,000 for his individual performance.

Share-Based Compensation

The Company believes that a component of its officers' compensation should consist of share-based incentive compensation, which appreciates or depreciates in value in relation to the market price of our common stock. Accordingly, the Compensation Committee has in recent years made, and intends in the future to continue to make, grants of share-based awards to the named executive officers and other key employees in such amounts as the Committee believes will accomplish the objectives of our compensation programs. As discussed below, the holder's ability to realize any financial benefit from these awards typically requires the fulfillment of substantial vesting requirements that are performance contingency-related in some cases and time-related in others. Accordingly, the Company believes that these awards provide substantial benefit to the Company in creating appropriate performance incentives and in facilitating the long-term retention of employees who add significant value. During 2013, the Company granted 105,000 options to Named Executive Officers in recognition of their performance in 2012.

Retirement and Other Benefits

The Company's benefits program includes retirement plans and group insurance plans. The objective of the program is to provide select named executive officers with reasonable and competitive levels of protection against the four contingencies (retirement, death, disability and ill health) which could interrupt their employment and/or income received as an active employee. Retirement plans, including the supplemental executive retirement plan, are designed to provide a competitive level of retirement income to named executive officers and to reward them for continued service with the Company. The retirement program consists of a supplemental executive retirement plan and the 401(k) plan. Mr. Robert Higgins and Mr. Eisenberg are participants in the supplemental executive retirement plan.

The group insurance program consists of life, disability and health insurance benefit plans that cover all full-time management and administrative employees and the supplemental long-term disability plan, which covers the named executive officers and other officers.

Other Compensation

The Company continues to maintain modest executive benefits and perquisites for officers; however, the Compensation Committee in its discretion may revise, amend or add to the officer's executive benefits and perquisites if it deems it advisable. See the Summary Compensation Table for a summary of such benefits.

Deductibility of Compensation Expenses

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to a public corporation for annual compensation over \$1 million for its named executive officers who are considered “covered employees” for purposes of Section 162(m). Qualifying performance based compensation will not be subject to the deduction limit if certain requirements are met. Executive compensation is structured to avoid limitations on deductibility where this result can be achieved consistent with the Company’s compensation goals.

Report of the Compensation Committee on the Compensation Discussion and Analysis

The Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis section included in this proxy statement. Based on such review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy for filing with the Securities and Exchange Commission.

Compensation Committee of the Board of Directors
Michael Solow, Chairman
Martin Hanaka
Dr. Joseph Morone
Michael Nahl

Summary Compensation Table

The following table sets forth information regarding compensation earned by our Chief Executive Officer, Chief Financial Officer and three other most highly compensated Executive Officers:

Name	Principal Position	Year	Salary (\$) ⁽¹⁾	Bonus (\$)	Stock Awards (\$) ⁽²⁾	Option Awards (\$) ⁽³⁾	Non-Equity Incentive Plan Compensation (\$) ⁽⁴⁾	Change in Pension Value (\$) ⁽⁵⁾	All Other Compensation (\$) ⁽⁶⁾	Total Compensation (\$)
Robert J. Higgins	Chairman of the Board and Chief Executive Officer	2013	800,000	—	—	—	—	—	186,435	986,435
		2012	800,000	—	—	—	2,750,000	1,018,363	183,304	4,751,667
		2011	900,000	—	456,234	—	1,125,000	4,153,937	181,332	6,816,503
John N. Anderson	Chief Financial Officer	2013	235,384	36,000	—	58,164	—	—	—	329,548
		2012	174,134	—	—	31,000	95,000	—	—	275,134
Bruce J. Eisenberg	Executive Vice President – Real Estate and Stores	2013	403,269	—	—	154,265	—	214,927	—	772,461
		2012	400,000	—	—	—	1,000,000	1,054,339	—	2,454,339
		2011	360,000	—	—	—	435,000	675,217	—	1,470,217
Mark Higgins	Acting Senior Vice President of Merchandising	2013	230,778	—	—	29,082	35,232	—	3,897	298,989
Mike Manske ⁽⁵⁾	Former Senior Vice President of Merchandising and Marketing	2013	201,114	—	—	72,705	—	—	80,000	353,819

(1) Salary represents amounts earned during fiscal year.

(2) Amounts represent the grant date fair value, as computed in accordance with Accounting Standards Codification Topic 718, relating to share units awarded to Mr. Robert J. Higgins during fiscal 2011. Effective April 12, 2011, Mr. Robert J. Higgins was granted 279,898 performance based restricted stock units. In 2012, the restricted stock units fully vested based on the achievement of performance targets and he received a cash payment of \$635,368.

(3) Amount represents the grant date fair value as computed in accordance with Accounting Standards Codification Topic 718, relating to the grant of stock options to the Named Executive Officer in 2013. See Note 7 to the Consolidated Financial Statements in the Company’s 2013 Annual Report on Form 10-K for the assumptions made in determining the value. Effective June 21, 2013, Mr. Anderson, Mr. Eisenberg, Mr. Mark Higgins and Mr. Manske were granted 20,000, 50,000, 10,000 and 25,000 options, respectively. The amount set forth in the table above does not necessarily reflect the value that will ultimately be realized with respect to the award.

(4) For the fiscal year 2012 and fiscal year 2011, amounts represent cash incentive payouts made to certain named executive officers for the achievement of the Company’s Earnings Before Interest, Taxes, Depreciation and Amortization Target. In addition, for Mr. Eisenberg amounts include a deferred cash grant made in fiscal 2008 and paid in fiscal 2011 of \$75,000.

For the fiscal year 2013, amounts represent incentive payout to Mr. Mark Higgins based on the achievement of individual performance targets.

- (5) Effective October 25, 2013, Mike Manske, who served as Senior Vice President of Merchandising and Marketing, is no longer with the Company.
- (6) Includes the following payments made by the Company to the named executive officers:

<u>Name</u>	<u>Year</u>	<u>Perquisites and Other Personnel Benefits (\$)</u>	<u>Insurance Premiums (\$)</u>	<u>Company Contributions to Retirement and 401(K) Plans (\$)</u>	<u>Severance Payments / Accruals (\$)</u>	<u>Total (\$)</u>
Robert J. Higgins ⁽¹⁾	2013	33,666	150,000	2,769	—	186,435
	2012	33,304	150,000	—	—	183,304
	2011	31,332	150,000	—	—	181,332
John N. Anderson	2013	—	—	—	—	—
	2012	—	—	—	—	—
	2011	—	—	—	—	—
Bruce J. Eisenberg	2013	—	—	—	—	—
	2012	—	—	—	—	—
	2011	—	—	—	—	—
Mark Higgins	2013	—	—	3,897	—	3,897
	2012	—	—	—	—	—
	2011	—	—	—	—	—
Mike Manske	2013	—	—	—	80,000	80,000
	2012	—	—	—	—	—
	2011	—	—	—	—	—

(1) Perquisites for Mr. Robert Higgins during the 2013 fiscal year include club dues (\$6,416) and fees paid for a personal assistant (\$27,250). The cost of perquisites was determined based on out-of-pocket cost to the Company.

Employment Agreement

On December 26, 2008, the Company entered into a new employment agreement with Mr. Robert Higgins pursuant to which Mr. Robert Higgins continued to serve as Chief Executive Officer of the Company. The original term of the agreement expired on December 31, 2012. The term is subject to automatic one year extensions starting on the second anniversary of the effective date unless prior written notice is given by the Mr. Robert Higgins or the Company. Due to the automatic one year extensions, the current term of agreement expires on December 31, 2015, unless earlier terminated in accordance with its terms.

Under the agreement, Mr. Robert Higgins will receive an annual base salary of \$1,000,000 (or such larger amount as the Company's Board of Directors may determine from time to time). Effective May 1, 2014, Mr. Robert Higgins agreed to reduce his salary to \$700,000. Under the Agreement, Mr. Robert Higgins will be eligible for bonuses under the Company's executive bonus plan, under which will have an annual bonus opportunity based on the achievement of certain performance criteria as approved by the Board of Directors. Under the agreement, the Board of Directors may also determine to pay Mr. Robert Higgins compensation in excess of the required base salary and bonus. He is entitled to participate in all incentive, savings, retirement, welfare and such other employee benefit programs as are generally in effect for the Company's executive employees and is also entitled to reimbursement for or payment of certain travel and other expenses.

Mr. Robert Higgins has agreed to certain confidentiality, non-competition and non-solicitation provisions. In addition, he shall be entitled to gross-up payments in the event excise taxes on payments or benefits made to him are imposed under Section 4999 of the Internal Revenue Code or any similar state or local tax law. The agreement also provides for indemnification during the contract period and for a period of five years thereafter.

Grants of Equity and Incentive Plan-Based Awards

The following table provides information with respect to Share Units granted and annual incentive bonus plan awards, as applicable, to the named executive officers during the year ended February 1, 2014:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			All Other Option Awards; Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Share)	Grant Date Fair Value of Stock and Option Awards (\$'s)
		Threshold (\$)	Target (\$)	Maximum (\$)			
Robert J. Higgins	5/5/2013	240,000	800,000	1,200,000	—	—	—
John N. Anderson	5/5/2013	48,000	120,000	180,000	—	—	—
	6/21/2013	—	—	—	20,000	\$4.87	58,164
Bruce J. Eisenberg	5/5/2013	103,750	249,000	373,500	—	—	—
	6/21/2013	—	—	—	50,000	\$4.87	154,265
Mark Higgins	5/5/2013	34,650	92,400	138,600	—	—	—
	6/21/2013	—	—	—	10,000	\$4.87	29,082
Mike Manske ⁽²⁾	5/5/2013	60,000	150,000	225,000	—	—	—
	6/21/2013	—	—	—	25,000	\$4.87	72,705

(1) The amounts indicated reflect the possible payouts for the 2013 annual incentive bonus plan. Based on 2013 results no payouts were made to named executive officers under this plan.

(2) Mr. Manske's options were forfeited upon termination of service.

Outstanding Equity Awards at Fiscal Year-End

The table below summarizes the named executive officers' equity awards that were unvested or unexercised, as applicable, as of February 1, 2014.

Name	Grant Date	Option Awards			
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Robert J. Higgins.....	4/30/2004	550,000	—	10.31	4/30/2014
	5/2/2005	475,000	—	14.32	5/2/2015
	5/1/2006	450,000	—	5.32	5/1/2016
John N. Anderson	4/30/2004	3,750	—	10.31	4/30/2014
	5/2/2005	4,500	—	14.32	5/2/2015
	5/1/2006	4,000	—	5.32	5/1/2016
	5/1/2007	3,800	—	5.50	5/1/2017
	3/1/2011 ⁽²⁾	—	20,000	1.73	3/1/2021
	5/7/2012 ⁽²⁾	—	20,000	2.53	5/7/2022
	6/21/2013 ⁽²⁾	—	20,000	4.87	6/21/2023
Bruce J. Eisenberg	4/30/2004	60,000	—	10.31	4/30/2014
	5/2/2005	50,000	—	14.32	5/2/2015
	5/1/2006	50,000	—	5.32	5/1/2016
	5/1/2007	50,000	—	5.50	5/1/2017
	5/6/2010 ⁽¹⁾	75,000	125,000	2.11	5/6/2020
	6/21/2013	—	50,000	4.87	6/21/2023
Mark Higgins.....	4/30/2004	10,000	—	10.31	4/30/2014
	5/2/2005	9,000	—	14.32	5/2/2015
	5/1/2006	8,500	—	5.32	5/1/2016
	5/1/2007	7,750	—	5.50	5/1/2017
	3/1/2011 ⁽²⁾	—	20,000	1.73	3/1/2021
	5/7/2012 ⁽²⁾	—	10,000	2.53	5/7/2022
	6/21/2013 ⁽²⁾	—	10,000	4.87	6/21/2023
Mike Manske ⁽³⁾	—	—	—	—	—

- (1) Mr. Eisenberg's options vest based on service period with 125,000 vesting after the fourth year of service.
- (2) Mr. Anderson's, Mr. Eisenberg's and Mr. Mark Higgins' options vest based on service period with 60% vesting after the third year of service and 20% vesting after the each of fourth and fifth year of service.
- (3) Mr. Manske's options were forfeited upon termination of service.

Fiscal 2013 Option Exercises and Stock Vested

The following table summarizes options exercised and stock awards that vested during the last completed fiscal year.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Robert J. Higgins	1,000,000	264,000	—	—
John N. Anderson.....	3,000	820	—	—
Bruce J. Eisenberg	150,000	38,932	—	—
Mark Higgins	12,000	3,240	—	—
Mike Manske	—	—	—	—

Pension Benefits

The Company maintains a non-qualified Supplemental Executive Retirement Plan (“SERP”) for certain executive officers of the Company. The SERP, which is a nonqualified plan, provides eligible executives defined pension benefits that supplement benefits under other retirement arrangements. The annual benefit amount is equal to 50% of the average of the participant's base compensation for the five years prior to retirement plus the average of the three largest bonus payments for the last five years prior to retirement, to the extent vested. Participants vest 35% after 10 years, 75% after 20 years and 100% after 20 years of service and retirement at the age of 65. In addition, the benefits become vested in full upon a change in control of the Company prior to the participant's termination of employment or a termination of employment due to the participant's death or disability. Additionally, all benefits under the Supplemental Executive Retirement Plan will be forfeited in the event of any of the following: competitive conduct during the 5 years following termination of employment or at any time while in receipt of benefits; solicitation for employment or employment of company employees during the 5 years following termination or at any time while in receipt of benefits (this clause is waived in the event of a change in control); disclosure of confidential information; or termination for cause. During the 2012 fiscal year, the Compensation Committee of the Board of Directors approved setting Mr. Robert Higgins' annual benefit to \$950,000. Payments are made in equal installments over 20 years. The Company has established a rabbi trust whose purpose is to be a source of funds to pay benefits to participants in the SERP. The following table illustrates pension benefits accrued under the Supplemental Executive Retirement Plan:

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$) ⁽¹⁾	Payments During Last Fiscal Year (\$)
Robert J. Higgins.....	Supplemental Executive Retirement Plan	41	12,918,575	—
John N. Anderson.....	Supplemental Executive Retirement Plan	—	—	—
Bruce J. Eisenberg	Supplemental Executive Retirement Plan	20	2,662,330	—
Mark Higgins.....	Supplemental Executive Retirement Plan	—	—	—
Mike Manske.....	Supplemental Executive Retirement Plan	—	—	—

- (1) The amounts shown in this column are based on the same assumptions used in preparation of the Company's 2013 Consolidated Financial Statements, which are described in Note 7 to the Company's 2013 Consolidated Financial Statements.

Potential Payments Upon Termination or Change of Control

The following table illustrates potential payments upon termination or change of control as of February 1, 2014:

	<u>Voluntary</u>	<u>Involuntary</u>		<u>Death</u>	<u>Disability</u>	<u>Change in Control⁽⁶⁾</u>
		<u>For Cause</u>	<u>W/O Cause</u>			
Retirement Benefits⁽¹⁾						
Robert J. Higgins	—	—	—	—	—	—
John N. Anderson	—	—	—	—	—	—
Bruce Eisenberg	—	—	—	1,264,053	1,264,053	1,264,053
Mark Higgins	—	—	—	—	—	—
Mike Manske	—	—	—	—	—	—
Equity⁽²⁾						
Robert J. Higgins	—	—	—	—	—	—
John N. Anderson	—	—	—	73,200	73,200	73,200
Bruce Eisenberg	—	—	—	231,250	231,250	231,250
Mark Higgins	—	—	—	58,900	58,900	58,900
Mike Manske	—	—	—	—	—	—
Severance Benefits						
Robert J. Higgins ⁽³⁾	—	—	3,064,000	—	800,000	—
John N. Anderson ⁽⁴⁾	—	—	120,000	—	—	—
Bruce Eisenberg ⁽⁵⁾	—	—	207,500	—	—	—
Mark Higgins	—	—	118,388	—	—	—
Mike Manske	—	—	—	—	—	—
Health and Welfare Benefits⁽⁷⁾						
Robert J. Higgins	—	—	175,038	—	45,702	—
John N. Anderson	—	—	34,268	—	—	—
Bruce Eisenberg	—	—	34,268	—	—	—
Mark Higgins	—	—	34,268	—	—	—
Mike Manske	—	—	—	—	—	—

(1) Under provisions of the Trans World Entertainment Supplemental Executive Retirement Plan, a participant would be fully vested in their pension benefit in the event of death, disability or a change in control of the Company. The estimated present value of the accelerated vesting due to the death, disability or change in control provisions as presented are as of February 1, 2014. Additionally, all benefits under the Supplemental Executive Retirement Plan will be forfeited in the event of any of the following: competitive conduct during the 5 years following termination of employment or at any time while in receipt of benefits; solicitation for employment or employment of company employees during the 5 years following termination or at any time while in receipt of benefits (this clause is waived in the event of a change in control); disclosure of confidential information; or termination for cause.

(2) Value as of February 1, 2014 of unvested equity awards. These awards vest pursuant the terms of the 2005 Long Term Incentive Plan and applicable award agreement.

(3) Severance provisions as provided by Mr. Robert Higgins employment agreement, as described below.

(4) Severance provisions as provided by the Company's severance guidelines, as described below.

(5) Anticipated costs of continuing life insurance, disability, medical, dental and hospitalization benefits for estimated severance period.

Severance Benefits

Other than the employment agreement entered into between the Company and Mr. Robert Higgins, the Company has not entered into any agreements with the named executive officers which provide severance or other benefits upon a termination of employment or a change in control.

Mr. Robert Higgins' employment agreement provides that, in the event of his termination by reason of death or disability (as defined in the agreement), the executive (or in the case of death, the executive's spouse or estate) shall be entitled to receive: (i) earned but unpaid base salary; (ii) reimbursement for expenses incurred prior to termination; (iii) payment for accrued but unused vacation; and (iv) the annual bonus for the fiscal year of termination in an amount determined by the Compensation Committee based on the achievement of performance goals for the fiscal year but

pro-rated to reflect the number of days in the fiscal year through the date of termination. Following a termination by reason of disability, he will also receive an amount equal to two times his base salary for the period from the date of termination through the six month anniversary of the date of termination.

In the event of his termination by the Company for cause (as defined in the agreement) or by the executive for any reason other than good reason (as defined in the agreement), the Company's remaining obligations under the agreement shall terminate.

In the event of his termination by the Company for any reason other than cause, death or disability or by the executive for good reason, Mr. Robert Higgins shall be entitled to receive: (i) earned but unpaid base salary and accrued but unused vacation; (ii) reimbursement for expenses incurred prior to termination; and (iii) an amount equal to two times his base salary for the period from the date of termination until the latest of (A) the third anniversary of the effective date of the agreement, (B) the end of the contract period or (C) one year after the date of termination, payable over such period in accordance with the regular payroll practices of the Company. In addition, Mr. Robert Higgins (and his dependents) will be entitled to continue participation in the Company's medical, dental and vision care plans until the latest of (x) the third anniversary of the effective date; (y) the end of the contract period or (z) one year after the date of termination, provided, however, that such participation shall cease on any earlier date that Mr. Robert Higgins becomes eligible for substantially similar benefits from a subsequent employer.

The Company has severance guidelines that are applicable to Officers, including the named executive officers, who are not party to an employment agreement. Under those guidelines, which are subject to review and amendment by the Committee from time to time, an Officer whose employment is terminated by the Company as a result of a reduction in force, position elimination or a failure to keep pace with the strategic demands of his or her position and who executes a release in the form requested by the Company is generally entitled to continue to receive one week of salary continuation, and continued participation in other benefit plans, for each year of service, with a minimum of 13 weeks and a maximum of 26 weeks for Vice President level officers.

In addition, unvested equity awards vest upon death, disability or a change of control pursuant to the terms of the 2005 Long Term Incentive Plan and applicable award agreements.

RELATED PARTY TRANSACTIONS

The Company leases its 181,300 square foot distribution center/office facility in Albany, New York from Robert J. Higgins, its Chairman, Chief Executive Officer and largest shareholder, under three capital leases that expire in the year 2015. The original distribution center/office facility was occupied in 1985.

Under the three capital leases, dated April 1, 1985, November 1, 1989 and September 1, 1998, the Company paid Mr. Robert Higgins an annual rent of \$2.3 million in the 2013 fiscal year. Pursuant to the terms of the lease agreements, effective January 1, 2002 and every two years thereafter, rental payments will increase in accordance with the biennial increase in the Consumer Price Index. Under the terms of the lease agreements, the Company is responsible for property taxes, insurance and other operating costs with respect to the premises. Mr. Robert Higgins does not have any future obligation for principal and interest. None of the leases contain any real property purchase options at the expiration of its term.

The Company leases one of its retail stores from Mr. Robert Higgins under an operating lease. Annual rental payments under this lease were \$40,000 in the 2013 fiscal year. Under the terms of the lease, the Company pays property taxes, maintenance and a contingent rental if a specified sales level is achieved. Total additional charges for the store, including contingent rent, were approximately \$3,800 in the 2013 fiscal year.

The Board has assigned responsibility for reviewing related party transactions to its Audit Committee. The Audit Committee has adopted a written policy pursuant to which all transactions between the Company or its subsidiaries and any Director or Officer must be submitted to the Audit Committee for consideration prior to the consummation of the transaction. The transaction will then be evaluated by the Audit Committee to determine if the transaction is in the best interest of the Company and whether, in the Committee's judgment, the terms of such transaction are at least as beneficial to the Company as the terms we could obtain in a similar transaction with an independent third party. In order to meet these standards, the Committee may conduct a competitive bidding process, secure independent consulting advice, engage in its own fact-finding, or pursue such other investigation and fact-finding initiatives as may be necessary and appropriate in the Committee's judgment. The Audit Committee reports to the Board, for its review, on all related party transactions considered. The transactions that were entered into with an "interested Director" were approved by a majority of disinterested Directors of the Board of Directors, either by the Audit Committee or at a meeting of the Board of Directors.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 generally requires the Company's Directors, Executive Officers and persons who own more than ten percent of the registered class of the Company's equity securities to file reports of beneficial ownership and changes in beneficial ownership with the Securities and Exchange Commission. Based solely upon its review of the copies of such reports received by it, or upon written representations obtained from certain reporting persons, the Company believes that all Section 16(a) filing requirements applicable to its officers, Directors, and greater than ten percent stockholders were complied with.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors and monitors the Company's efforts to comply with certain aspects of the Sarbanes-Oxley Act of 2002. The Audit Committee of the Board has reviewed and discussed the Company's audited financial statements with the Company's Management and its independent accountants, KPMG LLP. Management is responsible for the financial statements and the underlying financial reporting processes, including the system of internal controls. The Audit Committee has discussed with KPMG LLP, the Company's independent accountants, the matters required to be discussed under professional standards. The Audit Committee also has received the written disclosures and the letter from the independent accountants required by applicable standards of the Public Company

Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence and has discussed with KPMG LLP the independence of such independent accounting firm. The Committee has also considered whether the independent accountants' provision of information technology and other non-audit services to the Company is compatible with the accountants' independence.

The Audit Committee also discussed with the Company's internal auditors and with KPMG LLP the overall scope and plans for their respective audits. The Audit Committee meets periodically with the Company's internal auditors and with KPMG LLP, with and without management present, to discuss the results of their examinations, the evaluation of the Company's internal controls and the overall quality and transparency of the Company's financial reporting. Based on its review and discussions referred to above, The Audit Committee recommended to the Board that the audited financial statements for the fiscal year ended February 1, 2014 be included in the Company's Annual Report on Form 10-K for the Company's fiscal year ended February 1, 2014.

Audit Committee of the Board of Directors
Robert Marks (Chairman)
Dr. Joseph Morone
Michael Nahl

Item 2. APPROVAL OF THE 2005 AMENDED AND RESTATED LONG TERM INCENTIVE AND SHARE AWARD PLAN

The Board of Directors has amended and restated the 2005 Long Term Incentive and Share Award Plan (the "Plan"), subject to shareholder approval, to extend the term of the Plan and adapt certain provisions relating to the administration of the Plan. We now ask the shareholders to approve the amendment and restatement of the Plan. The following summary of the Plan is qualified in its entirety by reference to the Plan, which is attached as Appendix A to this Proxy Statement.

General. The Plan is intended to provide incentives to attract, retain and motivate employees, consultants and Directors and to provide for competitive compensation opportunities, to encourage long term service, to recognize individual contributions and reward achievement of performance goals, and to promote the creation of long term value for stockholders by aligning the interests of such persons with those of stockholders. The Plan will provide for the grant to eligible employees, consultants and Directors of stock options, share appreciation rights ("SARs"), restricted shares, restricted share units, performance shares, performance units, dividend equivalents, and other share-based awards (the "Awards"). An aggregate of 3,000,000 shares of Common Stock have been reserved for issuance under the Plan. In addition, during a calendar year (i) the maximum number of shares with respect to which options and SARs may be granted to a participant under the Plan will be 1,000,000 shares, and (ii) the maximum number of shares which may be granted to a participant under the Plan with respect to Awards intended to qualify as performance-based compensation under the Internal Revenue Code of 1986, as amended (the "Code") (other than options and SARs) will be 200,000 shares. These share amounts are subject to anti-dilution adjustments in the event of certain changes in the Company's capital structure, as described below. Shares issued pursuant to the Plan will be authorized but unissued shares.

As of May 2, 2014, the Company has an aggregate of approximately 2.7 million shares remaining for future awards under the Current Plans.

Eligibility and Administration. Directors, Officers and other employees of, and consultants to, the Company and its subsidiaries and affiliates and Directors of the Company will be eligible to be granted Awards under the Plan. The Plan will be administered by the Compensation Committee or such other Board committee (or the entire Board) as may be designated by the Board (the "Committee"). Unless otherwise determined by the Board, the Committee will consist of two or more members of the Board who are nonemployee Directors within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934 (the "Exchange Act") and "outside Directors" within the meaning of Section 162(m) of the Code. The Committee will determine which eligible employees,

consultants and Directors receive Awards, the types of Awards to be received and the terms and conditions thereof. The Committee will have authority to waive conditions relating to an Award or accelerate vesting of Awards. Approximately 3,400 persons are currently eligible to participate in the Plan, but awards are generally limited to approximately 15 upper level associates.

Awards. Incentive stock options (“ISOs”) intended to qualify for special tax treatment in accordance with the Code and nonqualified stock options not intended to qualify for special tax treatment under the Code may be granted for such number of shares of Common Stock as the Committee determines. The Committee will be authorized to set the terms relating to an option, including exercise price and the time and method of exercise. However, the exercise price of options will not be less than the fair market value of the shares on the date of grant, and the term will not be longer than ten years from the date of grant of the options.

A SAR will entitle the holder thereof to receive with respect to each share subject thereto, an amount equal to the excess of the fair market value of one share of Common Stock on the date of exercise (or, if the Committee so determines, at any time during a specified period before or after the date of exercise) over the exercise price of the SAR set by the Committee as of the date of grant. However, the exercise price of the SARs will not be less than the fair market value of the shares on the date of grant, and the term will not be longer than ten years from the date of grant of the SARs. Payment with respect to SARs may be made in cash or shares of Common Stock as determined by the Committee prior to grant.

Awards of restricted shares will be subject to such restrictions on transferability and other restrictions, if any, as the Committee may impose. Such restrictions will lapse under circumstances as the Committee may determine, including based upon a specified period of continued employment or upon the achievement of performance criteria referred to below. Except as otherwise determined by the Committee, eligible employees granted restricted shares will have all of the rights of a stockholder, including the right to vote restricted shares and receive dividends thereon, and unvested restricted shares will be forfeited upon termination of employment during the applicable restriction period.

A restricted share unit will entitle the holder thereof to receive shares of Common Stock or cash at the end of a specified deferral period. Restricted share units will also be subject to such restrictions as the Committee may impose. Such restrictions will lapse under circumstances as the Committee may determine, including based upon a specified period of continued employment or upon the achievement of performance criteria referred to below. Except as otherwise determined by the Committee, restricted share units subject to restriction will be forfeited upon termination of employment during any applicable restriction period.

Performance shares and performance units will provide for future issuance of shares or payment of cash to the recipient upon the attainment of corporate performance goals established by the Committee over specified performance periods. Except as otherwise determined by the Committee, performance shares and performance units will be forfeited upon termination of employment during any applicable performance period. Performance objectives may vary from person to person and will be based upon such performance criteria as the Committee may deem appropriate. The Committee may revise performance objectives if significant events occur during the performance period which the Committee expects to have a substantial effect on such objectives.

The Committee may also grant dividend equivalent rights and it is authorized, subject to limitations under applicable law, to grant such other Awards that may be denominated in, valued in, or otherwise based on, shares of Common Stock, as deemed by the Committee to be consistent with the purposes of the Plan. Dividend equivalents will not be paid on awards based on performance objectives prior to the time the objectives are achieved.

If the Committee determines that an Award of restricted shares, restricted share units, performance shares, performance units or other share-based awards should qualify under the performance-based compensation exception to the \$1 million cap on deductibility under Section 162(m) of the Code, the grant, vesting, exercise and/or settlement of such awards shall be contingent upon achievement of preestablished performance goals based on one or more of the following business criteria for the Company and/or for specified subsidiaries or affiliates or other business

units or lines of business of the Company: (1) earnings per share (basic or fully diluted); (2) revenues; (3) earnings, before or after taxes, from operations (generally or specified operations), or before or after interest expense, depreciation, amortization, incentives, or extraordinary or special items; (4) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (5) return on net assets, return on assets, return on investment, return on capital, return on equity; (6) economic value added; (7) operating income or operating expense; (8) net income; (9) share price or total stockholder return; and (10) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion goals, cost targets, customer satisfaction, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures. The targeted level or levels of performance with respect to such business criteria may be established at such levels and in such terms as the Committee may determine, in its discretion, including in absolute terms, as a goal relative to performance in prior periods, or as a goal compared to the performance of one or more comparable companies or an index covering multiple companies. The maximum amount payable upon settlement of cash-settled performance units or other cash-settled awards granted under the Plan for any calendar year to any participant that is intended to satisfy the requirements of performance-based compensation under Section 162(m) of the Code shall not exceed \$1,000,000.

Nontransferability. Unless otherwise set forth by the Committee in an award agreement, Awards (except for vested shares) will generally not be transferable by the participant other than by will or the laws of descent and distribution and will be exercisable during the lifetime of the participant only by such participant or his or her guardian or legal representative.

Change of Control. In the event of a change of control (as defined in the Plan), all Awards granted under the Plan then outstanding but not then exercisable (or subject to restrictions) shall become immediately exercisable, all restrictions shall lapse, and any performance criteria shall be deemed satisfied, unless otherwise provided in the applicable Award agreement.

Capital Structure Changes. If the Committee determines that any dividend in shares, recapitalization, share split, reorganization, merger, consolidation, spin-off, repurchase, share exchange, or other similar corporate transaction or event affects the Common Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of eligible participants under the Plan, then the Committee shall make such equitable changes or adjustments as it deems appropriate, including adjustments to (i) the number and kind of shares which may thereafter be issued under the Plan, (ii) the number and kind of shares, other securities or other consideration issued or issuable in respect of outstanding Awards, and (iii) the exercise price, grant price or purchase price relating to any Award.

Amendment and Termination. The Plan may be amended, suspended or terminated by the Board of Directors at any time, in whole or in part. However, any amendment for which stockholder approval is required under the rules of any stock exchange or automated quotation system on which the Common Stock may then be listed or quoted will not be effective until such stockholder approval has been obtained. In addition, no amendment, suspension, or termination of the Plan may materially and adversely affect the rights of a participant under any Award theretofore granted to him or her without the consent of the affected participant. The Committee may waive any conditions or rights, amend any terms, or amend, suspend or terminate, any Award granted, provided that, without participant consent, such amendment, suspension or termination may not materially and adversely affect the rights of such participant under any Award previously granted to him or her.

Effective Date and Term. The amended and restated Plan is effective as of July 2, 2014, subject to shareholder approval. Unless earlier terminated, the Plan will expire on the tenth anniversary of the effective date, and no further awards may be granted thereunder after such date.

Market Value. The per share closing price of the Common Stock on May 15, 2014 was \$[] million.

Federal Income Tax Consequences. The following is a summary of the federal income tax consequences of the Plan, based upon current provisions of the Code, the Treasury regulations

promulgated thereunder and administrative and judicial interpretations thereof, and does not address the consequences under any state, local or foreign tax laws.

Stock Options

In general, the grant of an option will not be a taxable event to the recipient and it will not result in a deduction to the Company. The tax consequences associated with the exercise of an option and the subsequent disposition of shares of Common Stock acquired on the exercise of such option depend on whether the option is a nonqualified stock option or an ISO.

Upon the exercise of a nonqualified stock option, the participant will recognize ordinary taxable income equal to the excess of the fair market value of the shares of Common Stock received upon exercise over the exercise price. The Company will generally be able to claim a deduction in an equivalent amount. Any gain or loss upon a subsequent sale or exchange of the shares of Common Stock will be capital gain or loss, long-term or short-term, depending on the holding period for the shares of Common Stock.

Generally, a participant will not recognize ordinary taxable income at the time of exercise of an ISO and no deduction will be available to the Company, provided the option is exercised while the participant is an employee or within three months following termination of employment (longer, in the case of disability or death). If an ISO granted under the Plan is exercised after these periods, the exercise will be treated for federal income tax purposes as the exercise of a nonqualified stock option. Also, an ISO granted under the Plan will be treated as a nonqualified stock option to the extent it (together with other ISOs granted to the participant by the Company) first becomes exercisable in any calendar year for shares of Common Stock having a fair market value, determined as of the date of grant, in excess of \$100,000.

If shares of Common Stock acquired upon exercise of an ISO are sold or exchanged more than one year after the date of exercise and more than two years after the date of grant of the option, any gain or loss will be long-term capital gain or loss. If shares of Common Stock acquired upon exercise of an ISO are disposed of prior to the expiration of these one-year or two-year holding periods (a “Disqualifying Disposition”), the participant will recognize ordinary income at the time of disposition, and the Company will generally be entitled to a deduction, in an amount equal to the excess of the fair market value of the shares of Common Stock at the date of exercise over the exercise price. Any additional gain will be treated as capital gain, long-term or short-term, depending on how long the shares of Common Stock have been held. Where shares of Common Stock are sold or exchanged in a Disqualifying Disposition (other than certain related party transactions) for an amount less than their fair market value at the date of exercise, any ordinary income recognized in connection with the Disqualifying Disposition will be limited to the amount of gain, if any, recognized in the sale or exchange, and any loss will be a long-term or short-term capital loss, depending on how long the shares of Common Stock have been held.

If an option is exercised through the use of shares of Common Stock previously owned by the participant, such exercise generally will not be considered a taxable disposition of the previously owned shares and, thus, no gain or loss will be recognized with respect to such previously owned shares upon such exercise. The amount of any built-in gain on the previously owned shares generally will not be recognized until the new shares acquired on the option exercise are disposed of in a sale or other taxable transaction.

Although the exercise of an ISO as described above would not produce ordinary taxable income to the participant, it would result in an increase in the participant’s alternative minimum taxable income and may result in an alternative minimum tax liability.

Restricted Shares

A participant who receives restricted shares will generally recognize ordinary income at the time that they “vest”, i.e., when they are not subject to a substantial risk of forfeiture. The amount of ordinary income so recognized will generally be the fair market value of the Common Stock at the time the shares vest, less the amount, if any, paid for the shares. This amount is generally deductible

for federal income tax purposes by the Company. Dividends paid with respect to Common Stock that is nonvested will be ordinary compensation income to the participant (and generally deductible by the Company). Any gain or loss upon a subsequent sale or exchange of the shares of Common Stock, measured by the difference between the sale price and the fair market value on the date the shares vest, will be capital gain or loss, long-term or short-term, depending on the holding period for the shares of Common Stock. The holding period for this purpose will begin on the date following the date the shares vest.

In lieu of the treatment described above, a participant may elect immediate recognition of income under Section 83(b) of the Code. In such event, the participant will recognize as income the fair market value of the restricted shares at the time of grant (determined without regard to any restrictions other than restrictions which by their terms will never lapse), and the Company will generally be entitled to a corresponding deduction. Dividends paid with respect to shares as to which a proper Section 83(b) election has been made will not be deductible to the Company. If a Section 83(b) election is made and the restricted shares are subsequently forfeited, the participant will not be entitled to any offsetting tax deduction.

SARs and Other Awards

With respect to SARs, restricted share units, performance shares, performance units, dividend equivalents and other Awards under the Plan not described above, generally, when a participant receives payment with respect to any such Award granted to him or her under the Plan, the amount of cash and the fair market value of any other property received will be ordinary income to such participant and will be allowed as a deduction for federal income tax purposes to the Company.

Payment of Withholding Taxes

The Company may withhold, or require a participant to remit to it, an amount sufficient to satisfy any federal, state, local or foreign withholding tax requirements associated with Awards under the Plan.

Deductibility Limit on Compensation in Excess of \$1 Million

Section 162(m) of the Code generally limits the deductible amount of annual compensation paid (including, unless an exception applies, compensation otherwise deductible in connection with Awards granted under the Plan) by a public company to each “covered employee” (i.e., the Chief Executive Officer, Chief Financial Officer and three other most highly compensated executive officers of the Company) to no more than \$1 million. The Company currently intends to structure stock options and SARs granted under the Plan to comply with an exception to nondeductibility under Section 162(m) of the Code.

New Plan Benefits. No benefits have been received or allocated to any employee, consultant or Director under the Plan, and therefore a “New Plan Benefits” table has not been included.

The Board of Directors Recommends a Vote “FOR” the Approval of the Amended and restated 2005 Long Term Incentive and Share Award Plan.

The following table contains information about the Company’s Common Stock that may be issued, as new shares, upon the exercise of options, warrants and rights under all of the Company’s equity compensation plans as of February 1, 2014:

<u>Plan Category</u>	<u>Number of Shares to be Issued upon Exercise of Outstanding Options, Warrants and Rights⁽¹⁾</u>	<u>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights⁽¹⁾</u>	<u>Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Outstanding Options, Warrants and Rights)</u>
Equity Compensation Plan Approved by Shareholders ...	2,918,131	\$8.04	2,714,550
Equity Compensation Plans and Agreements not Approved by Shareholders.....	—	—	—

(1) Includes 10,941 deferred shares under which shares may be issued for no consideration.

Item 3. APPROVAL OF THE TRANS WORLD ENTERTAINMENT CORPORATION BONUS PLAN

The Board of Directors has adopted, subject to shareholder approval, the Trans World Entertainment Corporation Executive Bonus Plan (the “Bonus Plan”). The Bonus Plan will be administered by the Compensation Committee (the “Committee”) and is intended to serve as a qualified performance-based compensation program under Section 162(m) of the Internal Revenue Code, as amended (the “Code”). Section 162(m) of the Code limits the amount of compensation expense that the Company can deduct for income tax purposes. In general, a public company cannot deduct annual compensation in excess of \$1 million paid in a year to the chief executive officer or an executive officer whose compensation is required to be included in the summary compensation table contained in the company’s proxy statement by reason of being one of its three most highly compensated executive officers other than its chief executive officer and chief financial officer (the “Covered Employees”). However, compensation that constitutes “qualified performance-based compensation” is not subject to this deduction limitation. Among the requirements for compensation to qualify for this exception is that the material terms pursuant to which the compensation is to be paid, including the performance goals, be disclosed to and approved by the shareholders in a separate vote. If such shareholders approval is not obtained, bonuses or other performance-based compensation paid to the Company’s Covered Employees under the Bonus Plan may not be fully tax deductible to the Company. Accordingly, the Bonus Plan is being submitted to the shareholders for approval at the 2014 Annual Meeting.

The following summary of the Bonus Plan, is qualified in its entirety by reference to the text of the Bonus Plan attached as Appendix B to this Proxy Statement.

Purpose of the Plan. The Bonus Plan provides the Company with an additional means to attract and retain executive officers by providing them with an opportunity to earn annual incentive compensation, contingent on the achievement of certain performance goals, as an incentive and reward for their contributions to the growth, profitability and success of the Company from year to year.

Administration. The Plan shall be administered by the Compensation Committee of the Board of Directors (the “Committee”). The Committee shall have the authority to establish performance goals for the awards for each plan year; to determine the participants for each plan year; to determine whether performance goals for each plan year have been achieved; to authorize payment of awards under the Bonus Plan, including determining the form and timing of payment and any conditions (such as further service requirements) that will apply to such payment; to adopt, alter and repeal such administrative rules, guidelines and practices governing the Bonus Plan as it shall deem advisable; and to interpret the terms and provisions of the Plan.

Determination of Awards. The amount of a participant's award for any plan year shall be an amount not greater than \$3,000,000, which amount shall be determined based on the achievement of one or more performance goals established by the Committee. Performance goals may vary as among participants and shall be based upon one of the following performance criteria, as the Committee may deem appropriate: appreciation in value of the Company's common stock; total shareholder return; earnings per share; operating income; net income; pretax earnings; pretax earnings before interest, depreciation and amortization; pro forma net income; return on equity; return on designated assets; return on capital; economic value created or economic profit; earnings per share and/or growth thereof; revenues; expenses (including expense ratio); new business production; capital markets and/or acquisition transactions; investment programs initiated; operating profit margin; operating cash flow; free cash flow; cash flow return on investment; cash flow; comparable store sales; store closings; operating margin; and net profit margin. Performance goals may be expressed as absolute goals, goals compared to past performance, goals compared to the performance of a published or special index or benchmark deemed applicable by the Committee, or otherwise as determined by the Committee. The performance goals may be determined by reference to the performance of the Company and/or a subsidiary or affiliate of the Company, or of a division or unit of any of the foregoing. The Committee shall designate (i) the participants, (ii) the performance goals and (iii) the corresponding award amounts payable to each participant under the Bonus Plan upon achievement of such performance goals and satisfaction of other conditions under the Bonus Plan or specified by the Committee. So long as an Award is fully contingent upon a measure of performance as specified in the Bonus Plan, the Committee may consider other measures of performance or other circumstances in its exercise of discretion ("negative discretion") to reduce the final award. The Committee may specify at the time an award opportunity is authorized or at any other time such other performance measures or other terms upon which it will exercise negative discretion.

Payment of Award. Unless otherwise determined by the Committee at the time the terms of the award are originally established, an award (if any) to a participant for a plan year shall be paid after the end of the plan year and on or prior to the fifteenth day of the third month following the end of the plan year. However, prior to payment, the Committee shall have first certified in writing (i) that the applicable performance goal or goals with respect to such participant for such plan year were satisfied and the level of attainment of such goals, (ii) that all other material terms (if any) upon which payment of the award is conditioned were satisfied and (iii) the amount of each such participant's award. Payments will be in cash, subject to any conditions the Committee may impose. If a Participant dies after the end of a plan year but before receiving payment of any award, the amount of such award shall be paid to a designated beneficiary or, if no beneficiary has been designated, to the participant's estate, in the form of a lump sum payment in cash at the time set forth above for payment of awards.

Non-Transferability. No Award or rights under the Bonus Plan may be transferred or assigned other than by will or by the laws of descent and distribution.

Amendments and Termination. The Board of Directors may terminate the Bonus Plan at any time and may amend it from time to time, provided, however, that no termination or amendment of the Bonus Plan shall materially and adversely affect the rights of any participant or a beneficiary with respect to a previously certified award except with the written consent of such participant or beneficiary. Amendments to the Bonus Plan may be made without shareholder approval except as required to satisfy Section 162(m) of the Code.

U.S. Federal Income Tax Consequences

The following is a general summary of certain federal income tax aspects with respect to the Bonus Plan, based upon current provisions of the Code, the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, and does not address the consequences under any state, local or foreign tax laws.

Participants in the Bonus Plan will recognize ordinary income in respect of the compensation paid under such plan. The Company will generally be entitled to a deduction equal to the amount

taxable as ordinary income to the participant, subject to the \$1 million annual deduction limitation imposed by Section 162(m) of the Code. The Company intends that compensation paid to participants pursuant to the Bonus Plan will generally constitute “qualified performance-based compensation” under Section 162(m) of the Code and, consequently, should generally not be subject to this limitation.

The foregoing is based upon federal income tax laws and regulations as presently in effect and does not purport to be a complete description of the Federal income tax aspects of the Incentive Compensation Plan. Also, the specific state and local tax consequences to a participant and the Company may vary, depending upon the laws of the various states and localities and the individual circumstances of the participant.

Plan Benefits

The amount of benefits payable in the future under the Bonus Plan is not currently determinable as it is based on the future satisfaction of the conditions set forth in the plan.

The Board of Directors recommends a vote FOR approval of the Bonus Plan.

OTHER MATTERS

Other Items. Management knows of no other items or matters that are expected to be presented for consideration at the meeting. However, if other matters properly come before April 24, 2014, the persons named in the accompanying proxy intend to vote thereon in their discretion.

Proxy Solicitation. The Company will bear the cost of the meeting and the cost of soliciting proxies, including the cost of mailing the proxy materials. In addition to solicitation by mail, Directors, officers, and regular employees of the Company (none of whom will be specifically compensated for such services) may solicit proxies by telephone or otherwise. Arrangements will be made with brokerage houses and other custodians, nominees, and fiduciaries to forward proxies and proxy materials to their principals, and the Company will reimburse them for their ordinary and necessary expenses.

Independent Accountants. The Board of Directors currently intends to select KPMG LLP as independent accountants for the Company for the fiscal year ending January 31, 2015. KPMG LLP has acted as accountants for the Company since 1994, when it purchased the Albany practice of Ernst & Young, the Company's accountants since 1985. Representatives of KPMG LLP will be present at the Annual Meeting and available to make statements to and respond to appropriate questions of shareholders.

The appointment of independent accountants is approved annually by the Board of Directors. The decision of the Board is based on the recommendation of the Audit Committee, which reviews and approves in advance the audit scope, the types of non-audit services, and the estimated fees for the coming year. The Audit Committee also reviews and approves non-audit services to ensure that they will not impair the independence of the accountants.

Before making its recommendation to the Board for appointment of KPMG LLP, the Audit Committee carefully considered that firm's qualifications as independent accountants for the Company. This included a review of its performance in prior years, as well as its reputation for integrity and competence in the fields of accounting and auditing. The Audit Committee's review included inquiry concerning any litigation involving KPMG LLP and any proceedings by the Securities and Exchange Commission against the firm. The following is a description of the fees billed to the Company by KPMG LLP for fiscal years 2013 and 2012.

Audit Fees. Audit fees include fees paid by the Company to KPMG LLP in connection with the annual audit of the Company's consolidated financial statements and KPMG LLP's review of the Company's interim financial statements. Audit fees also include fees for services performed by KPMG LLP that are closely related to the audit and in many cases could only be provided by independent accountants. Such services include comfort letters and consents related to SEC registration statements and certain reports relating to the Company's regulatory filings. The aggregate fees billed to the Company by KPMG LLP for audit services rendered to the Company and its subsidiaries for fiscal years 2013 and 2012 totaled \$488,800 and \$331,600, respectively.

Audit Related Fees. Audit related services include due diligence and audit services related to employee benefit plan audits and certain attest services. The aggregate fees billed to the Company by KPMG LLP for audit related services rendered to the Company and its subsidiaries for fiscal years 2013 and 2012 totaled \$19,500 for each year.

Tax fees. Tax fees include corporate tax compliance and counsel and advisory services. BST Advisors, LLC was the Company's primary tax advisor in fiscal year 2013. KPMG didn't receive any fees for tax services in the last two years.

Each year, the Company reviews its existing practices regarding the use of its independent accountants to provide non-audit and consulting services, to ensure compliance with recent SEC proposals. The Company has a policy which provides that the Company's independent accountants may provide certain non-audit services which do not impair the accountants' independence. In that regard, the Audit Committee must pre-approve all audit services provided to the Company, as well as non-audit services provided by the Company's independent accountants. This policy is administered by the Company's senior financial management, which reports throughout the year to the Audit Committee.

Financial Statements. The Company's 2013 Annual Report to Shareholders (which does not form a part of the proxy solicitation material), including financial statements for the fiscal year ended February 1, 2014, is being sent concurrently to shareholders. If you have not received or had access to the 2013 Annual Report to Shareholders, you may request a copy by writing to: Trans World Entertainment Corporation, Attention: Treasurer, 38 Corporate Circle, Albany, NY 12203, and a copy will be sent to you free of charge.

SUBMISSION OF SHAREHOLDER PROPOSALS

Shareholders of the Company wishing to include proposals in the proxy material relating to the Annual Meeting of the Company to be held in 2015 must submit the same in writing so as to be received at the executive offices of the Company on or before January 30, 2015. Such proposals must also meet the other requirements of the rules of the Securities and Exchange Commission relating to shareholders' proposals. Proposals should be addressed to Edwin J. Sapienza, Secretary, Trans World Entertainment Corporation, 38 Corporate Circle, Albany, NY 12203. No such proposals were received with respect to the Annual Meeting scheduled for July 2, 2014.

For any proposal that is not submitted for inclusion in next year's proxy statement (as described in the preceding paragraph) but is instead sought to be presented directly at next year's annual general meeting, the rules of the SEC permit management to vote proxies in its discretion if we do not receive notice of the proposal on or before January 30, 2015. Notices of intention to present proposals at next year's annual general meeting should be addressed to Edwin J. Sapienza, Secretary, Trans World Entertainment, 38 Corporate Circle, Albany, NY 12203.

By Order of the Board of Directors,



Edwin J. Sapienza, Secretary

May 30, 2014

**TRANS WORLD ENTERTAINMENT CORPORATION
2005 LONG TERM INCENTIVE AND SHARE AWARD PLAN**

(AS AMENDED AND RESTATED)

SECTION 1. Purposes.

The purposes of the 2005 Long Term Incentive and Share Award Plan, as amended and restated, are to advance the interests of Trans World Entertainment Corporation and its shareholders by providing a means to attract, retain, and motivate employees, consultants and directors of the Company, its subsidiaries and affiliates, to provide for competitive compensation opportunities, to encourage long term service, to recognize individual contributions and reward achievement of performance goals, and to promote the creation of long term value for stockholders by aligning the interests of such persons with those of stockholders.

SECTION 2. Definitions.

For purposes of the Plan, the following terms shall be defined as set forth below:

2.1. “Affiliate” means any entity other than the Company and its Subsidiaries that is designated by the Board or the Committee as a participating employer under the Plan; *provided, however*, that the Company directly or indirectly owns at least 20% of the combined voting power of all classes of stock of such entity or at least 20% of the ownership interests in such entity.

2.2. “Award” means any Option, SAR, Restricted Share, Restricted Share Unit, Performance Share, Performance Unit, Dividend Equivalent, or Other Share-Based Award granted to an Eligible Person under the Plan.

2.3. “Award Agreement” means any written agreement, contract, or other instrument or document evidencing an Award.

2.4. “Beneficiary” means the person, persons, trust or trusts which have been designated by an Eligible Person in his or her most recent written beneficiary designation filed with the Company to receive the benefits specified under this Plan upon the death of the Eligible Person, or, if there is no designated Beneficiary or surviving designated Beneficiary, then the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive such benefits.

2.5. “Board” means the Board of Directors of the Company.

2.6. “Code” means the Internal Revenue Code of 1986, as amended from time to time. References to any provision of the Code shall be deemed to include successor provisions thereto and regulations thereunder.

2.7. “Committee” means the Compensation Committee of the Board, or such other Board committee or subcommittee (which may include the entire Board) as may be designated by the Board to administer the Plan; *provided, however*, that, unless otherwise determined by the Board, the Committee shall consist of two or more directors of the Company, each of whom is a “non-employee director” within the meaning of Rule 16b-3 under the Exchange Act, to the extent applicable, and each of whom is an “outside director” within the meaning of Section 162(m) of the Code, to the extent applicable; *provided, further*, that the mere fact that the Committee shall fail to qualify under either of the foregoing requirements shall not invalidate any Award made by the Committee which Award is otherwise validly made under the Plan.

2.8. “Company” means Trans World Entertainment Corporation, a corporation organized under the laws of New York, or any successor corporation.

2.9. “Director” means a member of the Board who is not an employee of the Company, a Subsidiary or an Affiliate.

2.10. “Dividend Equivalent” means a right, granted under Section 5(g), to receive cash, Shares, or other property equal in value to dividends paid with respect to a specified number of Shares. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award, and may be paid currently or on a deferred basis.

2.11. “Eligible Person” means (i) an employee or consultant of the Company, a Subsidiary or an Affiliate, including any Director who is an employee, or (ii) a Director. Notwithstanding any provisions of this Plan to the contrary, an Award may be granted to an employee, consultant or Director, in connection with his or her hiring or retention prior to the date the employee, consultant or Director first performs services for the Company, a Subsidiary or an Affiliate; *provided, however*, that any such Award shall not become vested or exercisable prior to the date the employee, consultant or Director first performs such services.

2.12. “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time. References to any provision of the Exchange Act shall be deemed to include successor provisions thereto and regulations thereunder.

2.13. “Fair Market Value” means, with respect to Shares or other property, the fair market value of such Shares or other property determined by such methods or procedures as shall be established from time to time by the Committee. If the Shares are listed on any established stock exchange or a national market system, unless otherwise determined by the Committee in good faith, the Fair Market Value of Shares shall mean the closing price per Share on the date (or, if the Shares were not traded on that day, the next preceding day that the Shares were traded) on the principal exchange or market system on which the Shares are traded, as such prices are officially quoted on such exchange.

2.14. “ISO” means any Option intended to be and designated as an incentive stock option within the meaning of Section 422 of the Code.

2.15. “NQSO” means any Option that is not an ISO.

2.16. “Option” means a right, granted under Section 5(b), to purchase Shares.

2.17. “Other Share-Based Award” means a right, granted under Section 5(h), that relates to or is valued by reference to Shares.

2.18. “Participant” means an Eligible Person who has been granted an Award under the Plan.

2.19. “Performance Share” means a performance share granted under Section 5(f).

2.20. “Performance Unit” means a performance unit granted under Section 5(f).

2.21. “Plan” means this 2005 Long Term Incentive and Share Award Plan, as amended and restated.

2.22. “Restricted Shares” means an Award of Shares under Section 5(d) that may be subject to certain restrictions and to a risk of forfeiture.

2.23. “Restricted Share Unit” means a right, granted under Section 5(e), to receive Shares or cash at the end of a specified deferral period.

2.24. “Rule 16b-3” means Rule 16b-3, as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

2.25. “SAR” or “Share Appreciation Right” means the right, granted under Section 5(c), to be paid an amount measured by the difference between the exercise price of the right and the Fair Market Value of Shares on the date of exercise of the right, with payment to be made in cash, Shares, or property as specified in the Award or determined by the Committee.

2.26. “Shares” means common stock, \$.01 par value per share, of the Company, and such other securities as may be substituted for Shares pursuant to Section 4(c) hereof.

2.27. “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations (other than the last

corporation in the unbroken chain) owns shares possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

2.28. "Termination of Service" means the termination of the Participant's employment, consulting services or directorship with the Company, its Subsidiaries and its Affiliates, as the case may be. A Participant employed by a Subsidiary of the Company or one of its Affiliates shall also be deemed to incur a Termination of Service if the Subsidiary of the Company or Affiliate ceases to be such a Subsidiary or an Affiliate, as the case may be, and the Participant does not immediately thereafter become an employee or director of, or a consultant to, the Company, another Subsidiary of the Company or an Affiliate. Temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and its Subsidiaries and Affiliates shall not be considered a Termination of Service.

SECTION 3. Administration.

3.1. *Authority of the Committee.* The Plan shall be administered by the Committee, and the Committee shall have full and final authority to take the following actions, in each case subject to and consistent with the provisions of the Plan:

- (A) to select Eligible Persons to whom Awards may be granted;
- (B) to designate Affiliates;
- (C) to determine the type or types of Awards to be granted to each Eligible Person;
- (D) to determine the type and number of Awards to be granted, the number of Shares to which an Award may relate, the terms and conditions of any Award granted under the Plan (including, but not limited to, any exercise price, grant price, or purchase price, any restriction or condition, any schedule for lapse of restrictions or conditions relating to transferability or forfeiture, exercisability, or settlement of an Award, and waiver or accelerations thereof, and waivers of performance conditions relating to an Award, based in each case on such considerations as the Committee shall determine), and all other matters to be determined in connection with an Award;
- (E) to determine whether, to what extent, and under what circumstances an Award may be settled, or the exercise price of an Award may be paid, in cash, Shares, other Awards, or other property, or an Award may be canceled, forfeited, exchanged, or surrendered;
- (F) to determine whether, to what extent, and under what circumstances cash, Shares, other Awards, or other property payable with respect to an Award will be deferred either automatically, at the election of the Committee, or at the election of the Eligible Person; provided that such deferral shall be structured to be in compliance with Section 409A of the Code;
- (G) to prescribe the form of each Award Agreement, which need not be identical for each Eligible Person;
- (H) to adopt, amend, suspend, waive, and rescind such rules and regulations and appoint such agents as the Committee may deem necessary or advisable to administer the Plan;
- (I) to correct any defect or supply any omission or reconcile any inconsistency in the Plan and to construe and interpret the Plan and any Award, rules and regulations, Award Agreement, or other instrument hereunder;
- (J) to accelerate the exercisability or vesting of all or any portion of any Award or to extend the period during which an Award is exercisable;
- (K) to determine whether uncertificated Shares may be used in satisfying Awards and otherwise in connection with the Plan; and
- (L) to make all other decisions and determinations as may be required under the terms of the Plan or as the Committee may deem necessary or advisable for the administration of the Plan.

3.2. *Manner of Exercise of Committee Authority.* The Committee shall have sole discretion in exercising its authority under the Plan. Any action of the Committee with respect to the Plan shall be final, conclusive, and binding on all persons, including the Company, Subsidiaries, Affiliates, Eligible Persons, any person claiming any rights under the Plan from or through any Eligible Person, and shareholders. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to other members of the Board or officers or managers of the Company or any Subsidiary or Affiliate the authority, subject to such terms as the Committee shall determine, to perform administrative functions and, with respect to Awards granted to persons not subject to Section 16 of the Exchange Act, to perform such other functions as the Committee may determine, to the extent permitted under Rule 16b-3 (if applicable) and applicable law.

3.3. *Limitation of Liability.* Each member of the Committee shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or other employee of the Company or any Subsidiary or Affiliate, the Company's independent certified public accountants, or other professional retained by the Company to assist in the administration of the Plan. No member of the Committee, and no officer or employee of the Company acting on behalf of the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Committee and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action, determination, or interpretation.

3.4. *Limitation on Committee's Discretion.* Anything in this Plan to the contrary notwithstanding, in the case of any Award which is intended to qualify as "performance-based compensation" within the meaning of Section 162(m)(4)(C) of the Code, the Committee shall have no discretion to increase the amount of compensation payable under the Award to the extent such an increase would cause the Award to lose its qualification as such performance-based compensation.

3.5. *No Option or SAR Repricing Without Shareholder Approval.* Except as provided in the first sentence of Section 4(c) hereof relating to certain antidilution adjustments, unless the approval of shareholders of the Company is obtained, Options and SARs issued under the Plan shall not be amended to lower their exercise price and Options and SARs issued under the Plan will not be exchanged for other Options or SARs with lower exercise prices.

3.6. *Limitation on Committee's Authority Under 409A.* Anything in this Plan to the contrary notwithstanding, the Committee's authority to modify outstanding Awards shall be limited to the extent necessary so that the existence of such authority does not (i) cause an Award that is not otherwise deferred compensation subject to Section 409A of the Code to become deferred compensation subject to Section 409A of the Code or (ii) cause an Award that is otherwise deferred compensation subject to Section 409A of the Code to fail to meet the requirements prescribed by Section 409A of the Code.

SECTION 4. Shares Subject to the Plan.

4.1. Subject to adjustment as provided in Section 4(c) hereof, the total number of Shares reserved for issuance in connection with Awards under the Plan shall be 3,000,000. No Award may be granted if the number of Shares to which such Award relates, when added to the number of Shares previously issued under the Plan, exceeds the number of Shares reserved under the preceding sentence. If any Awards are forfeited, canceled, terminated, exchanged or surrendered or such Award is settled in cash or otherwise terminates without a distribution of Shares to the Participant, any Shares counted against the number of Shares reserved and available under the Plan with respect to such Award shall, to the extent of any such forfeiture, settlement, termination, cancellation, exchange or surrender, again be available for Awards under the Plan. Upon the exercise of any Award granted in tandem with any other Awards, such related Awards shall be canceled to the extent of the number of Shares as to which the Award is exercised.

4.2. Subject to adjustment as provided in Section 4(c) hereof, the maximum number of Shares (i) with respect to which Options or SARs may be granted during a calendar year to any Eligible

Person under this Plan shall be 1,000,000 Shares, and (ii) with respect to Performance Shares, Performance Units, Restricted Shares or Restricted Share Units intended to qualify as performance-based compensation within the meaning of Section 162(m)(4)(C) of the Code shall be 200,000 Shares during a calendar year to any Eligible Person under this Plan.

4.3. In the event that the Committee shall determine that any dividend in Shares, recapitalization, Share split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, extraordinary distribution or other similar corporate transaction or event, affects the Shares such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Eligible Persons under the Plan, then the Committee shall make such equitable changes or adjustments as it deems appropriate and, in such manner as it may deem equitable, (i) adjust any or all of (x) the number and kind of shares which may thereafter be issued under the Plan, (y) the number and kind of shares, other securities or other consideration issued or issuable in respect of outstanding Awards, and (z) the exercise price, grant price, or purchase price relating to any Award, or (ii) provide for a distribution of cash or property in respect of any Award; provided, however, in each case that, with respect to ISOs, such adjustment shall be made in accordance with Section 424(a) of the Code, unless the Committee determines otherwise; provided further, however, that no adjustment shall be made pursuant to this Section 4(c) that causes any Award that is not otherwise deferred compensation subject to Section 409A of the Code to be treated as deferred compensation pursuant to Section 409A of the Code. In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria and performance objectives, if any, included in, Awards in recognition of unusual or non-recurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Subsidiary or Affiliate or the financial statements of the Company or any Subsidiary or Affiliate, or in response to changes in applicable laws, regulations, or accounting principles; provided, however, that the Committee shall not have discretion to increase the amount of compensation payable under any Award intended to qualify as performance-based compensation for purposes of Section 162(m)(4)(C) of the Code to the extent such an increase would cause the Award to lose its qualification as performance-based compensation for purposes of Section 162(m)(4)(C) of the Code and the regulations thereunder.

4.4. In the event that the Company is a party to a merger or consolidation or a Change of Control shall occur, outstanding Awards shall be subject to the agreement of merger or consolidation or other applicable transaction agreement. Such agreement, without the Participants' consent, may provide for: (i) continuation or assumption of such outstanding Award under the Plan by the Company (if it is the surviving corporation) or by the surviving corporation or its parent; (ii) substitution by the surviving corporation or its parent of awards with substantially the same terms for such outstanding Awards (and, if the Company is not a publicly traded entity, substitution of shares with equity of the surviving corporation or its parent with substantially the same terms as the outstanding shares); (iii) acceleration of the vesting of or right to exercise such outstanding Awards immediately prior to or as of the date of the merger or consolidation or Change of Control, and, in the case of Options or SARs, the expiration of such outstanding Options or SARs to the extent not timely exercised by the date of the merger, consolidation, Change of Control or other date thereafter designated by the Board; or (iv) in the case of Options or SARs, cancellation of all or any portion of such outstanding Options or SARs by a cash payment of the excess, if any, of the Fair Market Value of the shares subject to such outstanding Options or SARs or portion thereof being canceled over the aggregate purchase price with respect to such Options or SARs or portion thereof being canceled.

4.5. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Shares or treasury Shares including Shares acquired by purchase in the open market or in private transactions.

SECTION 5. *Specific Terms of Awards.*

5.1. *General.* Awards may be granted on the terms and conditions set forth in this Section 5. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or

thereafter (subject to Section 9(d)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms regarding forfeiture of Awards or continued exercisability of Awards in the event of Termination of Service by the Eligible Person.

5.2. *Options.* The Committee is authorized to grant Options, which may be NQSOs or ISOs, to Eligible Persons on the following terms and conditions:

- (A) *Exercise Price.* The exercise price per Share purchasable under an Option shall be determined by the Committee; provided, however, that the exercise price per Share of an Option shall not be less than the Fair Market Value of a Share on the date of grant of the Option. The Committee may, without limitation, set an exercise price that is based upon achievement of performance criteria if deemed appropriate by the Committee.
- (B) *Option Term.* The term of each Option shall be determined by the Committee; provided, however, that such term shall not be longer than ten years from the date of grant of the Option.
- (C) *Time and Method of Exercise.* The Committee shall determine at the date of grant or thereafter the time or times at which an Option may be exercised in whole or in part (including, without limitation, upon achievement of performance criteria if deemed appropriate by the Committee), the methods by which such exercise price may be paid or deemed to be paid (including, without limitation, broker-assisted exercise arrangements), the form of such payment (including, without limitation, cash, Shares, notes or other property), and the methods by which Shares will be delivered or deemed to be delivered to Eligible Persons. Unless otherwise set forth by the Committee in an applicable Award Agreement, Options granted hereunder shall become exercisable in full upon a Termination of Service due to the death or Disability of the Participant. Unless otherwise set forth by the Committee in an applicable Award Agreement, a Termination of Service shall be due to the Disability of the Participant if, upon such Termination of Service, the Participant qualifies for long-term disability benefits under the Company's applicable long-term disability plan.
- (D) *ISOs.* The terms of any ISO granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code, including but not limited to the requirement that the ISO shall be granted within ten years from the earlier of the date of adoption or shareholder approval of the Plan. ISOs may only be granted to employees of the Company or a Subsidiary.

5.3. *SARs.* The Committee is authorized to grant SARs (Share Appreciation Rights) to Eligible Persons on the following terms and conditions:

- (A) *Right to Payment.* A SAR shall confer on the Eligible Person to whom it is granted a right to receive with respect to each Share subject thereto, upon exercise thereof, the excess of (1) the Fair Market Value of one Share on the date of exercise over (2) the exercise price per Share of the SAR as determined by the Committee as of the date of grant of the SAR (which shall not be less than the Fair Market Value per Share on the date of grant of the SAR and, in the case of a SAR granted in tandem with an Option, shall be equal to the exercise price of the underlying Option).
- (B) *Other Terms.* The Committee shall determine, at the time of grant or thereafter, the time or times at which a SAR may be exercised in whole or in part (which shall not be more than ten years after the date of grant of the SAR), the method of exercise, method of settlement, form of consideration payable in settlement, method by which Shares will be delivered or deemed to be delivered to Eligible Persons, whether or not a SAR shall be in tandem with any other Award, and any other terms and conditions of any SAR. Unless the Committee determines otherwise, a SAR (1) granted in tandem with an NQSO may be granted at the time of grant of the related NQSO or at any time thereafter or (2) granted in tandem with an ISO may only be granted at the time of grant of the related ISO.

5.4. *Restricted Shares.* The Committee is authorized to grant Restricted Shares to Eligible Persons on the following terms and conditions:

- (A) *Issuance and Restrictions.* Restricted Shares shall be subject to such restrictions on transferability and other restrictions, if any, as the Committee may impose at the date of grant or thereafter, which restrictions, if any, may lapse separately or in combination at such times, under such circumstances (including, without limitation, upon achievement of performance criteria if deemed appropriate by the Committee), in such installments, or otherwise, as the Committee may determine. Except to the extent restricted under the Award Agreement relating to the Restricted Shares, an Eligible Person granted Restricted Shares shall have all of the rights of a shareholder including, without limitation, the right to vote Restricted Shares and the right to receive dividends thereon.
- (B) *Forfeiture.* Except as otherwise determined by the Committee, at the date of grant or thereafter, upon Termination of Service during any applicable restriction period, Restricted Shares and any accrued but unpaid dividends or Dividend Equivalents that are at that time subject to restrictions shall be forfeited; *provided, however,* that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Shares will be waived in whole or in part in the event of Termination of Service resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Shares.
- (C) *Certificates for Shares.* Restricted Shares granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Shares are registered in the name of the Eligible Person, such certificates shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Shares, and, unless otherwise determined by the Committee, the Company shall retain physical possession of the certificate and the Participant shall deliver a stock power to the Company, endorsed in blank, relating to the Restricted Shares.
- (D) *Dividends.* Dividends paid on Restricted Shares shall be either paid at the dividend payment date, or deferred for payment to such date, and subject to such conditions, as determined by the Committee, in cash or in restricted or unrestricted Shares having a Fair Market Value equal to the amount of such dividends. Unless otherwise determined by the Committee, Shares distributed in connection with a Share split or dividend in Shares, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Shares with respect to which such Shares or other property has been distributed.

5.5. *Restricted Share Units.* The Committee is authorized to grant Restricted Share Units to Eligible Persons, subject to the following terms and conditions:

- (A) *Award and Restrictions.* Delivery of Shares or cash, as the case may be, will occur upon expiration of the deferral period specified for Restricted Share Units by the Committee (or, if permitted by the Committee, as elected by the Eligible Person). In addition, Restricted Share Units shall be subject to such restrictions as the Committee may impose, if any (including, without limitation, the achievement of performance criteria if deemed appropriate by the Committee), at the date of grant or thereafter, which restrictions may lapse at the expiration of the deferral period or at earlier or later specified times, separately or in combination, in installments or otherwise, as the Committee may determine.
- (B) *Forfeiture.* Except as otherwise determined by the Committee at date of grant or thereafter, upon Termination of Service during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award Agreement evidencing the Restricted Share Units), or upon failure to satisfy any other conditions precedent to the delivery of Shares or cash to which such Restricted Share Units relate, all Restricted Share Units that are at that time subject to deferral or restriction shall be forfeited; *provided, however,* that the Committee may provide, by rule or regulation or in any Award

Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Share Units will be waived in whole or in part in the event of Termination of Service resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Share Units.

- (C) *Dividend Equivalents.* Unless otherwise determined by the Committee at the date of grant, Dividend Equivalents on the specified number of Shares covered by a Restricted Share Unit shall be either (A) paid with respect to such Restricted Share Unit at the dividend payment date in cash or in restricted or unrestricted Shares having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Restricted Share Unit and the amount or value thereof automatically deemed reinvested in additional Restricted Share Units or other Awards, as the Committee shall determine.

5.6. *Performance Shares and Performance Units.* The Committee is authorized to grant Performance Shares or Performance Units or both to Eligible Persons on the following terms and conditions:

- (A) *Performance Period.* The Committee shall determine a performance period (the “Performance Period”) of one or more years or other periods and shall determine the performance objectives for grants of Performance Shares and Performance Units. Performance objectives may vary from Eligible Person to Eligible Person and shall be based upon the performance criteria as the Committee may deem appropriate. The performance objectives may be determined by reference to the performance of the Company, or of a Subsidiary or Affiliate, or of a division or unit of any of the foregoing. Performance Periods may overlap and Eligible Persons may participate simultaneously with respect to Awards for which different Performance Periods are prescribed.
- (B) *Award Value.* For each Performance Period, the Committee shall determine for each Eligible Person or group of Eligible Persons with respect to that Performance Period the range of number of Shares, if any, in the case of Performance Shares, and the range of dollar values, if any, in the case of Performance Units, which may be fixed or may vary in accordance with such performance or other criteria specified by the Committee, which shall be paid to an Eligible Person as an Award if the relevant measure of Company performance for the Performance Period is met.
- (C) *Significant Events.* If during the course of a Performance Period there shall occur significant events as determined by the Committee which the Committee expects to have a substantial effect on a performance objective during such period, the Committee may revise such objective; *provided, however,* that, in the case of any Award intended to qualify as performance-based compensation for purposes of Section 162(m)(4)(C) of the Code, the Committee shall not have any discretion to increase the amount of compensation payable under the Award to the extent such an increase would cause the Award to lose its qualification as performance-based compensation for purposes of Section 162(m)(4)(C) of the Code and the regulations thereunder.
- (D) *Forfeiture.* Except as otherwise determined by the Committee, at the date of grant or thereafter, upon Termination of Service during the applicable Performance Period, Performance Shares and Performance Units for which the Performance Period was prescribed shall be forfeited; *provided, however,* that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in an individual case, that restrictions or forfeiture conditions relating to Performance Shares and Performance Units will be waived in whole or in part in the event of Terminations of Service resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Performance Shares and Performance Units.
- (E) *Payment.* Each Performance Share or Performance Unit may be paid in whole Shares, or cash, or a combination of Shares and cash either as a lump sum payment or in installments, all as the Committee shall determine, at the time of grant of the Performance Share or Performance Unit or otherwise, commencing at the time determined by the Committee.

5.7. *Dividend Equivalents.* The Committee is authorized to grant Dividend Equivalents to Eligible Persons. The Committee may provide, at the date of grant or thereafter, that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Shares, or other investment vehicles as the Committee may specify; *provided, however*, that, unless otherwise determined by the Committee, Dividend Equivalents (other than freestanding Dividend Equivalents) shall be subject to all conditions and restrictions of any underlying Awards to which they relate.

5.8. *Other Share-Based Awards.* The Committee is authorized, subject to limitations under applicable law, to grant to Eligible Persons such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the Committee to be consistent with the purposes of the Plan, including, without limitation, unrestricted shares awarded purely as a “bonus” and not subject to any restrictions or conditions, other rights convertible or exchangeable into Shares, purchase rights for Shares, Awards with value and payment contingent upon performance of the Company or any other factors designated by the Committee, and Awards valued by reference to the performance of specified Subsidiaries or Affiliates. The Committee shall determine the terms and conditions of such Awards at date of grant or thereafter. Shares delivered pursuant to an Award in the nature of a purchase right granted under this Section 5(h) shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Shares, notes or other property, as the Committee shall determine. Cash awards, as an element of or supplement to any other Award under the Plan, shall also be authorized pursuant to this Section 5(h).

SECTION 6. *Certain Provisions Applicable to Awards.*

6.1. *Stand-Alone, Additional, Tandem and Substitute Awards.* Awards granted under the Plan may, in the discretion of the Committee, be granted to Eligible Persons either alone or in addition to, in tandem with, or in exchange or substitution for, any other Award granted under the Plan or any award granted under any other plan or agreement of the Company, any Subsidiary or Affiliate, or any business entity to be acquired by the Company or a Subsidiary or Affiliate, or any other right of an Eligible Person to receive payment from the Company or any Subsidiary or Affiliate. Awards may be granted in addition to or in tandem with such other Awards or awards, and may be granted either as of the same time as or a different time from the grant of such other Awards or awards. Subject to the provisions of Section 3(e) hereof prohibiting Option and SAR repricing without shareholder approval, the per Share exercise price of any Option, or grant price of any SAR, which is granted, in connection with the substitution of awards granted under any other plan or agreement of the Company or any Subsidiary or Affiliate or any business entity to be acquired by the Company or any Subsidiary or Affiliate, shall be determined by the Committee, in its discretion.

6.2. *Term of Awards.* The term of each Award granted to an Eligible Person shall be for such period as may be determined by the Committee; provided, however, that in no event shall the term of any Option or SAR exceed a period of ten years from the date of its grant (or such shorter period as may be applicable under Section 422 of the Code).

6.3. *Form of Payment Under Awards.* Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or a Subsidiary or Affiliate upon the grant, maturation, or exercise of an Award may be made in such forms as the Committee shall determine at the date of grant or thereafter, including, without limitation, cash, Shares, notes or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis; provided that any such deferral shall be structured in a manner intended to be in compliance with Section 409A of the Code. The Committee may make rules relating to installment or deferred payments with respect to Awards, including the rate of interest to be credited with respect to such payments, and the Committee may require deferral of payment under an Award if, in the sole judgment of the Committee, it may be necessary in order to avoid nondeductibility of the payment under Section 162(m) of the Code.

6.4. *Nontransferability.* Unless otherwise set forth by the Committee in an Award Agreement, Awards shall not be transferable by an Eligible Person except by will or the laws of descent and distribution (except pursuant to a Beneficiary designation) and shall be exercisable during the lifetime of an Eligible Person only by such Eligible Person or his guardian or legal representative. An Eligible Person's rights under the Plan may not be pledged, mortgaged, hypothecated, or otherwise encumbered, and shall not be subject to claims of the Eligible Person's creditors.

6.5. *Noncompetition.* The Committee may, by way of the Award Agreements or otherwise, establish such other terms, conditions, restrictions and/or limitations, if any, of any Award, provided they are not inconsistent with the Plan, including, without limitation, the requirement that the Participant not engage in competition with, solicit customers or employees of, or disclose or use confidential information of, the Company or its Affiliates.

6.6. *No Dividend Equivalents on Unvested Performance Awards.* Notwithstanding any provision of this Plan to the contrary, Dividend Equivalents shall not be paid with respect to Performance Shares, Performance Units or other Awards that vest based on achievement of performance objectives prior to the time the applicable performance objectives have been achieved.

SECTION 7. Performance Awards.

7.1. *Performance Awards Granted to Covered Employees.* If the Committee determines that an Award (other than an Option or SAR) to be granted to an Eligible Person should qualify as "performance-based compensation" for purposes of Section 162(m) of the Code, the grant, vesting, exercise and/or settlement of such Award (each, a "Performance Award") shall be contingent upon achievement of preestablished performance goals and other terms set forth in this Section 7(a).

- (A) *Performance Goals Generally.* The performance goals for such Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 7(a). The performance goals shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code and regulations thereunder (including Treasury Regulation 1.162-27 and successor regulations thereto), including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being "substantially uncertain." The Committee may determine that such Performance Awards shall be granted, vested, exercised and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, vesting, exercise and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.
- (B) *Business Criteria.* One or more of the following business criteria for the Company, on a consolidated basis, and/or for specified Subsidiaries or Affiliates or other business units or lines of business of the Company shall be used by the Committee in establishing performance goals for such Performance Awards: (1) earnings per share (basic or fully diluted); (2) revenues; (3) earnings, before or after taxes, from operations (generally or specified operations), or before or after interest expense, depreciation, amortization, incentives, or extraordinary or special items; (4) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (5) return on net assets, return on assets, return on investment, return on capital, return on equity; (6) economic value added; (7) operating margin or operating expense; (8) net income; (9) Share price or total stockholder return; and (10) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion goals, cost targets, customer satisfaction, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of Subsidiaries, Affiliates or joint ventures. The targeted level or levels of performance with respect to such business criteria may be established at such levels and in such terms as the Committee may determine, in its discretion, including in absolute terms, as a goal relative to performance in prior periods, or as a goal compared to the

performance of one or more comparable companies or an index covering multiple companies.

- (C) *Performance Period; Timing for Establishing Performance Goals; Per-Person Limit.* Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period, as specified by the Committee. A performance goal shall be established not later than the earlier of (A) 90 days after the beginning of any performance period applicable to such Performance Award or (B) the time 25% of such performance period has elapsed. In all cases, the maximum Performance Award of any Participant shall be subject to the limitation set forth in Section 4(b) or Section 7(a)(v), as applicable.
- (D) *Settlement of Performance Awards; Other Terms.* Settlement of such Performance Awards shall be in cash, Shares, other Awards or other property, in the discretion of the Committee. The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with such Performance Awards, but may not exercise discretion to increase any such amount payable to the Participant in respect of a Performance Award subject to this Section 7(a). Any settlement which changes the form of payment from that originally specified shall be implemented in a manner such that the Performance Award and other related Awards do not, solely for that reason, fail to qualify as “performance-based compensation” for purposes of Section 162(m) of the Code. The Committee shall specify the circumstances, consistent with the requirements to qualify as “performance-based compensation” for purposes of Section 162(m) of the Code, in which such Performance Awards shall be paid or forfeited in the event of Termination of Service of the Participant or other event (including a Change of Control) prior to the end of a performance period or settlement of such Performance Awards.
- (E) *Maximum Annual Cash Award.* The maximum amount payable upon settlement of a cash-settled Performance Unit (or other cash-settled Award) granted under this Plan for any calendar year to any Eligible Person that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code shall not exceed \$1,000,000.

7.2. *Written Determinations.* Determinations by the Committee as to the establishment of performance goals, the amount potentially payable in respect of Performance Awards, the level of actual achievement of the specified performance goals relating to Performance Awards and the amount of any final Performance Award shall be recorded in writing in the case of Performance Awards intended to qualify under Section 162(m) of the Code. Specifically, the Committee shall certify in writing, in a manner conforming to applicable regulations under Section 162(m), prior to settlement of each such Award, that the performance objective relating to the Performance Award and other material terms of the Award upon which settlement of the Award was conditioned have been satisfied.

SECTION 8. Change of Control Provisions.

8.1. *Acceleration of Exercisability and Lapse of Restrictions.* Unless otherwise provided by the Committee at the time of the Award grant, in the event of a Change of Control, (i) all outstanding Awards pursuant to which the Participant may have rights the exercise of which is restricted or limited, shall become fully exercisable at the time of the Change of Control, and (ii) unless the right to lapse of restrictions or limitations is waived or deferred by a Participant prior to such lapse, all restrictions or limitations (including risks of forfeiture and deferrals) on outstanding Awards subject to restrictions or limitations under the Plan shall lapse, and all performance criteria and other conditions to payment of Awards under which payments of cash, Shares or other property are subject to conditions shall be deemed to be achieved or fulfilled and shall be waived by the Company at the time of the Change of Control.

8.2. *Definition of Change of Control.* For purposes of this Plan, “Change of Control” shall mean:

- (A) the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”), of 30% or more of either (1) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); *provided, however*, that the following shall not constitute a Change of Control: (i) such beneficial ownership by a Subsidiary of the Company; (ii) such beneficial ownership by any employee benefit plan (or related trust) sponsored or maintained by the Company or any or its Subsidiaries; (iii) such beneficial ownership by any corporation with respect to which, immediately following the acquisition of such beneficial ownership, more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such acquisition in substantially the same proportions as their ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, and no Person (other than Persons described in clause (iv) below) beneficially owns 30% or more of the voting securities of such corporation; (iv) such beneficial ownership by Robert J. Higgins, members of his immediate family or one or more trusts established for the benefit of such individual or family members; or (v) beneficial ownership by a Person of a percentage of Outstanding Company Common Stock or Outstanding Company Voting Securities which is less than the percentage of Outstanding Company Common Stock or Outstanding Company Voting Securities, as the case may be, held by Robert J. Higgins, members of his immediate family and one or more trusts established for the benefit of such individual or family members; or
- (B) during any period of two consecutive years, individuals who, as of the beginning of such period, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a director subsequent to the beginning of such period whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or
- (C) consummation of a reorganization, merger or consolidation, in each case, with respect to which all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such reorganization, merger or consolidation, do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding Company Common Stock and Outstanding Company Voting Securities as the case may be; or
- (D) consummation of a sale or disposition of all or substantially all of the assets of the Company, other than to a corporation with respect to which, following such sale or other

disposition, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of such corporation is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition, in substantially the same proportions as their ownership of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be; or

- (E) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

SECTION 9. General Provisions.

9.1. *Compliance with Legal and Trading Requirements.* The Plan, the granting and exercising of Awards thereunder, and the other obligations of the Company under the Plan and any Award Agreement, shall be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any stock exchange, regulatory or governmental agency as may be required. The Company, in its discretion, may postpone the issuance or delivery of Shares under any Award until completion of such stock exchange or market system listing or registration or qualification of such Shares or other required action under any state, federal or foreign law, rule or regulation as the Company may consider appropriate, and may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Shares in compliance with applicable laws, rules and regulations. No provisions of the Plan shall be interpreted or construed to obligate the Company to register any Shares under federal, state or foreign law. The Shares issued under the Plan may be subject to such other restrictions on transfer as determined by the Committee.

9.2. *No Right to Continued Employment or Service.* Neither the Plan nor any action taken thereunder shall be construed as giving any employee, consultant or director the right to be retained in the employ or service of the Company or any of its Subsidiaries or Affiliates, nor shall it interfere in any way with the right of the Company or any of its Subsidiaries or Affiliates to terminate any employee's, consultant's or director's employment or service at any time.

9.3. *Taxes.* The Company or any Subsidiary or Affiliate is authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Shares, or any payroll or other payment to an Eligible Person, amounts of withholding and other taxes due in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Eligible Persons to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of an Eligible Person's tax obligations; provided, however, that the amount of tax withholding to be satisfied by withholding Shares shall be limited to the minimum amount of taxes, including employment taxes, required to be withheld under applicable Federal, state and local law.

9.4. *Changes to the Plan and Awards.* The Board may amend, alter, suspend, discontinue, or terminate the Plan or the Committee's authority to grant Awards under the Plan without the consent of shareholders of the Company or Participants, except that any such amendment, alteration, suspension, discontinuation, or termination shall be subject to the approval of the Company's shareholders (i) to the extent such shareholder approval is required under the rules of any stock exchange or automated quotation system on which the Shares may then be listed or quoted, or (ii) as it applies to ISOs, to the extent such shareholder approval is required under Section 422 of the Code; *provided, however*, that, without the consent of an affected Participant, no amendment, alteration, suspension, discontinuation, or termination of the Plan may materially and adversely affect the rights of such Participant under any Award theretofore granted to him or her. The Committee may waive any conditions or rights under, amend any terms of, or amend, alter, suspend,

discontinue or terminate, any Award theretofore granted, prospectively or retrospectively; *provided, however*, that, without the consent of a Participant, no amendment, alteration, suspension, discontinuation or termination of any Award may materially and adversely affect the rights of such Participant under any Award theretofore granted to him or her.

9.5. *No Rights to Awards; No Shareholder Rights.* No Eligible Person or employee shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons and employees. No Award shall confer on any Eligible Person any of the rights of a shareholder of the Company unless and until Shares are duly issued or transferred to the Eligible Person in accordance with the terms of the Award.

9.6. *Unfunded Status of Awards.* The Plan is intended to constitute an “unfunded” plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; *provided, however*, that the Committee may authorize the creation of trusts or make other arrangements to meet the Company’s obligations under the Plan to deliver cash, Shares, other Awards, or other property pursuant to any Award, which trusts or other arrangements shall be consistent with the “unfunded” status of the Plan unless the Committee otherwise determines with the consent of each affected Participant.

9.7. *Nonexclusivity of the Plan.* Neither the adoption of the Plan by the Board nor its submission to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of options and other awards otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

9.8. *Not Compensation for Benefit Plans.* No Award payable under this Plan shall be deemed salary or compensation for the purpose of computing benefits under any benefit plan or other arrangement of the Company for the benefit of its employees, consultants or directors unless the Company shall determine otherwise.

9.9. *No Fractional Shares.* No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of such fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

9.10. *Governing Law.* The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan, and any Award Agreement shall be determined in accordance with the laws of New York, without giving effect to principles of conflict of laws thereof.

9.11. *Effective Date; Plan Termination.* The Plan shall become effective as of _____ 2014 (the “Effective Date”), subject to approval by the shareholders of the Company. The Plan shall terminate as to future awards on the date which is ten (10) years after the Effective Date.

9.12. *Section 409A.* It is intended that the Plan and Awards issued thereunder will comply with, or be exempt from, Section 409A of the Code (and any regulations and guidelines issued thereunder), and the Plan and such Awards shall be interpreted on a basis consistent with such intent. The Plan and any Award Agreements issued thereunder may be amended in any respect deemed by the Board or the Committee to be necessary in order to preserve compliance with Section 409A of the Code. In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on a Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code.

9.13. *Titles and Headings.* The titles and headings of the sections in the Plan are for convenience of reference only. In the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

**TRANS WORLD ENTERTAINMENT CORPORATION
EXECUTIVE OFFICERS BONUS PLAN**

SECTION 1. Purpose.

Trans World Entertainment Corporation (the “Company”) hereby establishes, subject to shareholder approval, this Executive Officers Bonus Plan (the “Plan”) in order to provide the Company with an additional means to attract and retain executive officers by providing them with an opportunity to earn annual incentive compensation, contingent on the achievement of certain performance goals, as an incentive and reward for their contributions to the growth, profitability and success of the Company from year to year.

The Company intends that compensation payable under the Plan will constitute “qualified performance-based compensation” under Section 162(m) of the Code (as hereinafter defined). The Plan shall be interpreted and construed in a manner consistent with such intent.

SECTION 2. Definitions.

2.1. “Award” means the amount of incentive compensation to which a Participant is entitled for each Plan Year as determined by the Committee pursuant to Sections 4 and 5 of the Plan.

2.2. “Board” means the Company’s Board of Directors.

2.3. “Code” means the Internal Revenue Code of 1986, as amended, including applicable regulations thereunder.

2.4. “Committee” means the Compensation Committee of the Board, which shall be comprised solely of at least two persons who, to the extent required to satisfy the exception for performance-based compensation under Section 162(m) of the Code, are “outside directors” within the meaning of such section. However, no act of the Committee shall be void or deemed to be without authority due to the failure of a member to meet any qualification requirement at the time the action is taken.

2.5. “Determination Date” means the day not later than the 90th day of a Plan Year or such other date by which the Committee may establish performance goals for a Plan Year without causing an Award to be treated as other than performance-based compensation under Section 162(m) of the Code.

2.6. “Eligible Employee” means any executive officer of the Company.

2.7. “Participant” means an Eligible Employee who has been selected to receive an Award for a given Plan Year, subject to achievement of one or more performance goals and satisfaction of other conditions under the Plan or specified by the Committee.

2.8. “Plan Year” means a fiscal year of the Company.

SECTION 3. Administration.

The Plan shall be administered by the Committee. The Committee shall have the authority to establish performance goals for the awarding of Awards for each Plan Year, to determine the Participants for each Plan Year; to determine whether performance goals for each Plan Year have been achieved; to authorize payment of Awards under the Plan, including determining the form and timing of payment and any conditions (such as further service requirements) that will apply to such payment; to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall deem advisable; and to interpret the terms and provisions of the Plan. All determinations made by the Committee with respect to the Plan and Awards thereunder shall be final and binding on all persons, including the Company and all Eligible Employees.

SECTION 4. Determination of Awards.

The amount of a Participant's Award for any Plan Year shall be an amount not greater than \$3,000,000, which amount shall be determined based on the achievement of one or more performance goals established by the Committee with respect to a Participant. Performance goals may vary as among Participants and shall be based upon one or more of the following criteria, as the Committee may deem appropriate: appreciation in value of the Company's common stock; total shareholder return; earnings per share; operating income; net income; pretax earnings; pretax earnings before interest, depreciation and amortization; pro forma net income; return on equity; return on designated assets; return on capital; economic value created or economic profit; earnings per share and/or growth thereof; revenues; expenses (including expense ratio); new business production; capital markets and/or acquisition transactions; investment programs initiated; operating profit margin; operating cash flow; free cash flow; cash flow return on investment; cash flow; comparable store sales; store closings; operating margin; and net profit margin. Performance goals may be expressed as absolute goals, goals compared to past performance, goals compared to the performance of a published or special index or benchmark deemed applicable by the Committee, or otherwise as determined by the Committee. The performance goals may be determined by reference to the performance of the Company and/or a subsidiary or affiliate of the Company, or of a division or unit of any of the foregoing. No later than the Determination Date for a Plan Year, the Committee shall designate (i) the Participants for such Plan Year, (ii) the performance goals for such Plan Year and (iii) the corresponding Award amounts payable to each Participant under the Plan upon achievement of such performance goals and satisfaction of other conditions under the Plan or specified by the Committee. So long as an Award is fully contingent upon a measure of performance as specified in this Section 4, the Committee may consider other measures of performance or other circumstances in its exercise of discretion ("negative discretion") to reduce the final Award. The Committee may specify at the time an Award opportunity is authorized or at any other time such other performance measures or other terms upon which it will exercise negative discretion.

SECTION 5. Payment of Award.

Unless otherwise determined by the Committee at the time the terms of the Award are originally established, an Award (if any) to a Participant for a Plan Year shall be paid after the end of the Plan Year and on or prior to the fifteenth day of the third month following the end of the Plan Year; provided, however, that the Committee shall have first certified in writing (i) that the applicable performance goal or goals with respect to such Participant for such Plan Year were satisfied and the level of attainment of such goals, (ii) that all other material terms (if any) upon which payment of the Award is conditioned were satisfied and (iii) the amount of each such Participant's Award. The Committee, unless it determines otherwise, may exercise negative discretion to reduce the amount that would otherwise be payable under an Award by reason of the applicable performance goal's having been achieved. Payments will be in cash, subject to any conditions the Committee may impose. If a Participant dies after the end of a Plan Year but before receiving payment of any Award, the amount of such Award (determined as set forth herein) shall be paid to a designated beneficiary or, if no beneficiary has been designated, to the Participant's estate, in the form of a lump sum payment in cash at the time set forth above for payment of Awards. Notwithstanding the foregoing, the Committee may determine, by separate employment agreement with any Participant or otherwise, that all or a portion of an Award for a Plan Year shall be payable to the Participant upon the Participant's death or disability, or upon a change of control of the Company, during the Plan Year.

SECTION 6. Non-transferability.

No Award or rights under this Plan may be transferred or assigned other than by will or by the laws of descent and distribution.

SECTION 7. Amendments and Termination.

The Board may terminate the Plan at any time and may amend it from time to time, provided, however, that no termination or amendment of the Plan shall materially and adversely affect the rights of any Participant or a beneficiary with respect to a previously certified Award except with the written consent of such Participant or beneficiary. Amendments to the Plan may be made without shareholder approval except as required to satisfy Section 162(m) of the Code.

SECTION 8. General Provisions.

8.1. Nothing set forth in this Plan shall prevent the Board from adopting other or additional compensation arrangements. Neither the adoption of the Plan or any Award hereunder shall confer upon an Eligible Employee any right to continued employment.

8.2. No member of the Board or the Committee, nor any officer or employee of the Company acting on behalf of the Board or the Committee, shall be personally liable for any action, determination or interpretation taken or made with respect to the Plan, and all members of the Board or the Committee and all officers or employees of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination or interpretation.

8.3. The Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, the authorization of Awards and performance goals in recognition of unusual or nonrecurring events, including stock splits, stock dividends, reorganizations, mergers, consolidations, large, special and non-recurring dividends, and acquisitions and dispositions of businesses and assets, affecting the Company and its subsidiaries or any business unit thereof, or the financial statements of the Company or any subsidiary, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Company, any subsidiary or affiliate or business unit thereof, performance of comparable organizations, economic and business conditions, and any other circumstances deemed relevant; provided, however, that no such adjustment shall be authorized or made if and to the extent that the existence or exercise of such authority would cause an Award hereunder to fail to qualify as "performance-based compensation" under Section 162(m) of the Code.

8.4. The Company shall deduct from any payment in settlement of a Participant's Award or other payment to the Participant any Federal, state, or local withholding or other tax or charge which the Company is then required to deduct under applicable law with respect to the Award.

8.5. The validity, construction, and effect of the Plan and any rules and regulations or document hereunder shall be determined in accordance with the laws (including those governing contracts) of State of New York, without giving effect to principles of conflict of laws thereof.

8.6. It is intended that this Plan and the Awards granted thereunder will comply with Section 409A of the Code and any regulations and guidelines promulgated thereunder, to the extent the Plan and Awards are subject thereto, and the Plan and the Awards shall be interpreted on a basis consistent with such intent.

SECTION 9. Effective Date of Plan; Reapproval.

The Plan shall become effective as of January 1, 2014, subject to approval by the shareholders of the Company. Any award granted under the Plan prior to such shareholder approval shall also be subject to approval by the shareholders of the Company. To the extent required to comply with Section 162(m) of the Code and determined by the Board to be appropriate, the Plan shall be submitted to shareholders for reapproval no later than the first meeting of shareholders of the Company that occurs in 2019.



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