TRANS WORLD ENTERTAINMENT CORP
Form DEF 14A
May 18, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

Trans World Entertainment Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Date and Time	Wednesday, June 16, 2004, at 10:00 A.M., EDT
Place	The Desmond 660 Albany Shaker Road Albany, New York 12211
Items of Business	(1) To elect three directors to serve three year terms and one director to serve a two year term and until their successors are chosen and qualified.
	(2) 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 April 30, 2004 are eligible to vote.
Proxy Voting	A proxy and return envelope, requiring no 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 and save the Company expense.

By order of the Board of Directors,

John J. Sullivan,
Secretary

May 19, 2004

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 June 16, 2004, 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 19, 2004.

VOTING SECURITIES

The Company has only one class of voting securities, its common stock, par value $.01 per share (the "Common Stock"). On April 30, 2004, the record date, 35,845,795 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 meeting.

QUORUM AND TABULATION OF VOTES

The By-Laws of the Company provide that a majority of the shares of Common Stock issued and outstanding and entitled to vote, present in person or by proxy, shall constitute a quorum at the Annual Meeting of Shareholders of the Company. Votes at the Annual Meeting will be tabulated by an inspector from Mellon Investor Services appointed by the Company. 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.

Brokers holding shares for beneficial owners must vote those shares according to the specific instructions they receive from the owners. If specific instructions are not received, however, brokers may vote these shares in their discretion, depending upon the type of proposal involved.

Pursuant to the Company's By-Laws, directors of the Company will be elected by a favorable vote of a plurality of the shares of Common Stock present and entitled to vote, in person or by proxy, at the Annual Meeting.

Under New York law, abstentions and broker non-votes will have no effect on the outcome of the election of Directors at the Annual Meeting. Brokers have discretionary authority to vote on the election of directors. If a properly signed proxy form is returned to the Company by a shareholder of record and is not marked, it will be voted "FOR" the proposal set forth herein as Item 1. The enclosed proxy may be revoked by a shareholder at any time before it is voted by the submission of a written revocation to the Company, by the submission of a new proxy to the Company, or by attending and voting in person at the Annual Meeting.

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 April 30, 2004, the record date, are indicated below:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Robert J. Higgins 38 Corporate Circle Albany, New York 12203	14,817,479(1)	41.3%
Stephen Feinberg 450 Park Avenue, 28th Floor New York, New York 10022	6,274,786(2)	17.8%
Van Kampen Asset Management Company 1585 Broadway New York, New York 10036	3,793,082(3)	10.6%
Dimensional Fund Advisors 1299 Ocean Avenue, 11th Floor Santa Monica, California 90401	2,793,545(4)	7.8%
Merrill Lynch, Pierce, Fenner & Smith, Inc 4 World Financial Center New York, New York 10080	2,729,700(5)	7.6%

(1) Information is as of April 30, 2004, as provided by the holder. Includes 2,375,000 shares that may be acquired within 60 days of April 30, 2004, 50,550 shares owned by the wife of Robert J. Higgins and 37,500 shares owned by a foundation controlled by Robert J. Higgins, and excludes 769,762 shares owned by certain other family members of Robert J. Higgins who do not share his residence. Mr. Higgins disclaims beneficial ownership with respect to those shares owned by family members other than his wife.

(2) Based on Form 4, filed April 29, 2004, by Stephen Feinberg in his capacity as the managing member of Cerberus Associates, LLC, the general partner of Cerberus Partners, LP and as the investment manager of each of Cerberus Institutional Partners, LP, Cerberus International, Ltd. and certain private investment funds.

(3) Based on Form 13G, filed February 27, 2004, by Morgan Stanley and Van Kampen Asset Management Inc.

(4) Based on Form 13G, filed February 6, 2004, by Dimensional Fund Advisors.

(5) Based on Form 13G, filed February 9, 2004, by Merrill Lynch and Company.

Mr. Higgins, who beneficially owns 14,817,479 shares of Common Stock as of the record date (approximately 41.3% of all outstanding shares), has advised the Company that he presently intends to vote all of his shares for the election of the nominees for director named under "Item 1 ELECTION OF DIRECTORS."

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Item 1. ELECTION OF DIRECTORS

The Board of Directors currently intends to present to the meeting the election of three Class I directors, each to hold office (subject to the Company's By-Laws) until the 2007 Annual Meeting of Shareholders and until his or her respective successor has been elected and qualified and one Class III director to hold office (subject to the Company's By-Laws) until the 2006 Annual Meeting of Shareholders and until his or her respective successor has been elected and qualified. Directors of the Company will be elected by a plurality vote of the outstanding shares of Common Stock present and entitled to vote at the meeting.

If any nominee listed below should become unavailable for any reason, which management does not anticipate, the proxy will be voted for any substitute nominee or nominees who may be selected by the Nominating and Corporate Governance Committee of the Board prior to or at the meeting or if no substitute is selected prior to or at the 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.

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. Higgins has served as Chairman, Chief Executive Officer and President of the Company for more than the past five years. He is also the Company's principal shareholder. See "PRINCIPAL SHAREHOLDERS."

Dr. Joseph G. Morone has been President of Bentley College since August 1997. Previously, Dr. Morone was the Dean of Rensselaer Polytechnic Institute's Lally School of Management and Technology from July 1993 to July 1997. Prior to his appointment as dean, Dr. Morone held the Andersen Consulting Professorship of Management and was Director of the School of Management's Center for Science and Technology Policy. 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 7 years at General Electric Company's Corporate Research and Development. Dr. Morone serves on the Boards of Directors of Tufts New England Medical Center, The Massachusetts High Technology Council and Albany International Corp.

Mark A. Cohen has been the Chairman and Chief Executive Officer of Sears Canada Inc. since 2001. Mr. Cohen joined Sears, Roebuck and Company as Senior Vice President, Merchandising in 1998. From December 1998 until August 1999 he served as Executive Vice President, Marketing before being promoted to Chief Marketing Officer and President, Softlines. Prior to joining Sears, Mr. Cohen was Chairman and CEO of Bradlees Department Stores from 1994 until 1998. Mr. Cohen has also held various positions at other retailers, including Federated Department Stores, Dayton Hudson Corporation, Gap Stores and Lord & Taylor.

Edmond Thomas has been managing partner for The Evans Thomas Company, LLC and AXIS Capital Fund I, LP since 2000. The Evans Thomas Company and AXIS Capital Fund provide advisory services for retail, catalog and consumer goods companies along with investing in emerging growth retail companies. Prior to joining The Evans Thomas Company, Mr. Thomas was the President and Chief Operating Officer of The Wet Seal, Inc., a publicly held leading junior apparel retailer. He has also served in various positions with several other retailers, including Domain, Inc., Foxmoor Specialty Stores and Child World, Inc. In addition, Mr. Thomas is a Certified Public Accountant. Mr. Thomas is also on the board of Swell Commerce, Inc., a catalog for surfing enthusiasts.

Upon election, Mr. Thomas will be appointed a Class III Director with his term expiring in 2006.

Continuing Class II Directors (terms expiring in 2005)

George W. Dougan, has been a member of the Board of Directors of Banknorth Group, Inc. since January 1, 1999. From January 1999 to May 2001, Mr. Dougan served as Vice Chairman of Banknorth Group, Inc. Mr. Dougan was Chief Executive Officer and a member of the Board of Directors of Evergreen Bancorp Inc. from March 1994 to December 1998, and Chairman of the Board from May 1994 to December 1998. Mr. Dougan was the Chairman of the Board and Chief Executive Officer of the Bank of Boston Florida from June 1992 to March 1994. Mr. Dougan was also the Senior Vice President and Director of Retail Banking of The Bank of Boston Massachusetts from February 1990 to June 1992.

Martin E. Hanaka has served as Chairman of the Board of The Sports Authority, Inc. since November 1999 and was its Chief Executive Officer from September 1998 until August 2003. Mr. Hanaka joined the Sports Authority's Board of Directors in February 1998. From August 1994 until October 1997, Mr. Hanaka served as President and Chief Operating Officer of Staples, Inc. an office supply superstore retailer. Mr. Hanaka's extensive retail career has included serving as Executive Vice President of Marketing and as President and Chief Operating Officer of Lechmere, Inc. from September 1992 through July 1994, and serving in various capacities for 20 years at Sears Roebuck and Company, at the end as Vice President in charge of Sears Brand Central.

Isaac Kaufman, a certified public accountant has been Chief Financial Officer and Senior Vice President of Advance Medical Management Inc., a manager of medical practices and an outpatient surgical center, since September 1998. Mr. Kaufman was Executive Vice President and Chief Financial Officer of Bio Science Contract Production Corporation, a contract manufacturer of biologics and pharmaceutical products, from February 1998 to September 1998. Mr. Kaufman was the Chief Financial Officer of VSI Group, Inc., a provider of contract staffing and management services, from November 1996 to February 1998. Mr. Kaufman serves as director of Kindred Healthcare, Inc. (operates nursing centers and long-term acute care hospitals).

Continuing Class III Directors (terms expiring in 2006)

Dean S. Adler has been a principal of Lubert/Adler Partners, LP, a limited partnership investing primarily in under-valued and opportunistic real estate and real estate-related ventures, since March 1997. For ten years prior thereto, Mr. Adler was a principal and co-head of the private equity group of CMS Companies, which specialized in acquiring operating businesses and real estate within the private equity market. Mr. Adler was also an instructor at The Wharton School of the University of Pennsylvania. Mr. Adler serves on the Boards of Directors of U.S. Franchise Systems, Inc., Electronics Boutique, Bed Bath & Beyond Inc. and Developers Diversified Realty Corporation.

Michael B. Solow is the Managing Partner of the Chicago office of Kaye Scholer LLP, an international law firm based in New York City, where he has practiced since January 2001. 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 is also a member of the Board of Directors for Christen Residential Trust, Inc. and has previously served on other corporate boards, including Camelot Music, Inc.

Equity Ownership of Directors and Executive Officers

The following table sets forth the beneficial ownership of Common Stock as of April 30, 2004, 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 April 30, 2004	Total Shares Beneficially Owned	Percent of Class
Robert J. Higgins	Chairman of the Board and Chief Executive Officer	62	1973	12,442,479(1)	2,375,000	14,817,479	*41.3%*
Dean S. Adler	Director	47	1997	8,198	50,327	58,525	*
Mark A. Cohen	Director	55	2003				*
George W. Dougan	Director	64	1984	7,143(2)	82,875	90,018	*
Martin E. Hanaka	Director	55	1998	9,698	40,250	49,948	*
Isaac Kaufman	Director	57	1991	25,783	52,875	78,658	*
Dr. Joseph G. Morone	Director	51	1997	12,286	23,464	35,750	*
Michael B. Solow	Director	45	1999	9,198	30,030	39,228	*
Edmond Thomas	Director	50	2003				*
Bruce J. Eisenberg	Executive Vice President Real Estate	44	1995	22,280	436,750	459,030	*1.3%*
Fred L. Fox	Executive Vice President Merchandising and Marketing	46	2002		75,000	75,000	*
John J. Sullivan	Executive Vice President, Chief Financial Officer and Secretary	51	1995	106,598	458,750	565,348	*1.6%*
All directors and officers as a group (12 persons)				12,643,663	3,625,321	16,268,984	*45.4%*

* Less Than 1%

(1) Includes 50,550 shares owned by the wife of Robert J. Higgins and 37,500 owned by a foundation controlled by Robert J. Higgins and excludes 769,762 shares owned by certain other family members of Robert J. Higgins who do not share his residence. Mr. Higgins disclaims beneficial ownership with respect to those shares owned by family members other than his wife.

(2) Does not include 30,698 shares held in a trust. Mr. Dougan disclaims beneficial ownership with respect to shares owned by the trust.

Board of Directors Meetings and Its Committees

The Board of Directors held 6 meetings during the 2003 fiscal year. All of the directors, except Mr. Adler, 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.

The Company has an Audit Committee of the Board of Directors whose members during the 2003 fiscal year were: Isaac Kaufman (Chairman), Joseph Morone and Michael Solow. Mr. Thomas was added to the Audit Committee upon his appointment to the Board. These directors are, in the opinion of the Board of Directors, "independent" (as defined under the standards of the National Association of Securities Dealers) of management and free of any relationship that would interfere with their exercise of independent judgement as members of the Audit Committee. The Board of Directors has determined that Isaac Kaufman and Edmond Thomas are both independent and qualified as Audit Committee financial experts 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 5 meetings during the 2003 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 activities and matters concerning financial reporting, accounting and audit procedures, related party transactions and policies generally. The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is attached as Appendix A.

The Company has a Compensation Committee of the Board of Directors, consisting solely of independent directors, whose members during the 2003 fiscal year were: Martin E. Hanaka (Chairman), George Dougan and Isaac Kaufman. Mr. Cohen was added to the Compensation Committee upon his appointment to the Board. The Compensation Committee held 2 meetings during the 2003 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 Board of Directors has adopted a written charter for the Compensation Committee, a copy of which is attached as Appendix B.

The Company has a Nominating and Corporate Governance Committee of the Board of Directors, consisting of independent directors, whose members during the 2003 fiscal year were: Joseph Morone (Chairman), Dean Adler, George Dougan, Martin Hanaka, Isaac Kaufman and Michael Solow. Mr. Cohen and Mr. Thomas were added to the Nominating and Corporate Governance Committee upon their appointment to the Board. The Nominating and Corporate Governance Committee held 4 meetings during the 2003 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 Appendix C.

The 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 Committee for nomination and inclusion in the Company's Proxy Statement for its 2005 Annual Meeting of Shareholders, a Shareholder recommendation for a Director must be received by the Company's Secretary no later than January 15, 2005. 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 Committee may seek additional biographical and background information from any candidate that must be received on a timely basis to be considered by the Committee.

The process followed by the 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 Committee and the Board. Assuming the appropriate biographical and background material is provided for candidates submitted by Shareholders, the Committee will evaluate those candidates by following substantially the same process, and applying substantially the same criteria, as for candidates submitted by Board members. All Director nominees recommended for election by the Shareholders at the 2004 Annual Meeting are current members of the Board. The Committee did not receive any nominations from Shareholders for the 2004 Annual Meeting.

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. 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
38 Corporate Circle
Albany, New York 12203.

Compensation of Directors

Cash Compensation. Each director who is not a salaried employee of the Company receives a $25,000 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 committee telephone conference meetings. 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 other discretionary grants of Common Stock to non-employee directors from time to time.

Directors Stock Option Plan. Each outside Director is entitled to participate in the Company's 1990 Stock Option Plan for Non-Employee Directors (the "Directors Plan"). Currently, Messrs. Adler, Dougan, Hanaka, Kaufman, Morone and Solow participate in the Directors Plan. A total of 750,000 shares of Common Stock are reserved for issuance pursuant to non-qualified stock options (the "Director Options") issued under such plan, and Director Options covering 362,500 shares of Common Stock have been granted and are outstanding. Stock options issuable under the Directors Plan are granted at an exercise price equal to the fair market value of the Common Stock on the date of grant.

An initial grant of 15,000 Director Options is made to each new director. In addition, on or about May 1 of each year, directors receive grants of deferred shares of Common Stock ("Deferred Shares") under the Directors Plan representing $80,000 in market value of Common Stock as of the date of grant. However, the number of deferred shares granted will be no greater than 15,000. The Deferred Share grants vest on the third anniversary of the date of grant. The terms of the Deferred Share grants provide that no later than six months prior to vesting, the recipient of a grant may elect to receive Common Stock upon vesting or defer the receipt of such common stock until such person is no longer a director; provided that Deferred Shares will immediately vest and be distributed upon (1) the death or permanent disability of a director or (2) certain events amounting to a sale or reorganization of the Company. The Board of Directors is authorized, in its discretion, to grant additional Director Options or Common Stock awards to Directors Plan participants. During fiscal 2003, annual grants to outside Directors of 30,000 Director Options were made at an exercise price of $6.44 per share, equal to the market value on the date of grant and 90,000 Deferred Share grants were made.

Retirement Plan. The Company provides the Board of Directors with a noncontributory, unfunded retirement plan that pays a retired director an annual retirement benefit equal to 60% of the annual retainer at the time of retirement plus a 3% annual increase through the final payment. Payments begin at age 62 or retirement, whichever is later, and continue for 10 years or the life of the director and his or her spouse, whichever period is shorter. Partial vesting in the retirement plan begins after six years of continuous service. Participants become fully vested after 12 years of continuous service on the board.

Effective June 1, 2003, new directors will not be covered by the retirement plan. Current directors who are not yet vested in their retirement benefits will have the present value of benefits already accrued as of the effective date converted to Deferred Shares under the Directors Plan. Directors that are fully or partially vested in their retirement benefits will be given a one time election to continue to participate in the current retirement program or convert the present value of benefits already accrued to Deferred Shares under the Directors Plan as of the effective date.

Related Party Transactions

The Company leases its 168,000 square foot distribution center/office facility in Albany, New York from Robert J. Higgins, its Chairman, Chief Executive Officer and principal shareholder, under three capitalized leases that expire in the year 2015. The original distribution center/office facility was constructed in 1985. A 77,100 square foot distribution center expansion was completed in October 1989 on real property adjoining the existing facility. A 19,100 square foot expansion was completed in September 1998 adjoining the existing facility.

Under the three capitalized leases, dated April 1, 1985, November 1, 1989 and September 1, 1998 (the "Leases"), the Company paid Mr. Higgins an annual rent of $1.8 million in fiscal 2003**.** On January 1, 2004, the aggregate rental payment increased in accordance with the biennial increase in the Consumer Price Index, pursuant to the provisions of each lease. Effective January 1, 2006, and every two years thereafter, the rental payment will increase in accordance with the biennial increase in the Consumer Price Index, pursuant to the provisions of the lease. None of the leases contains any real property purchase option at the expiration of its term. Under the terms of the Leases, the Company pays all property taxes, insurance and other operating costs with respect to the premises. Mr. Higgins' obligation for principal and interest on his underlying indebtedness relating to the real property is approximately $1.1 million annually.

The Company leases one of its retail stores from Mr. Higgins under a long-term lease, with an annual rental of $40,000. 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 during fiscal 2003 were $4,600.

The Company regularly utilizes privately-chartered aircraft owned or partially owned by Mr. Higgins. Under an unwritten agreement with Quail Aero Services of Syracuse, Inc., a corporation in which Mr. Higgins owns 47.5%, the Company paid $60,000 for chartered aircraft services in fiscal 2003. The Company also charters an aircraft from Crystal Jet, a corporation wholly-owned by Mr. Higgins. During fiscal 2003, payments to Crystal Jet aggregated $13,000. The Company also charters an aircraft from Richmor Aviation, an unaffiliated corporation which leases an aircraft owned by Mr. Higgins. Payments to Richmor Aviation were $235,000 in 2003. The Company believes that the charter rates and terms are as favorable to the Company as those generally available to it from other commercial charters.

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. The Board of Directors believes that the leases and other provisions are at rates and on terms that are at least as favorable as those that would have been available to the Company from unaffiliated third parties under the circumstances.

Prior to July 30, 2002, the Company made loans aggregating $442,717 to John J. Sullivan, the Company's Executive Vice President and Chief Financial Officer, in connection with income taxes due on restricted stock. As of the date hereof, $359,387 of the principal amount of the loan was outstanding. The loan bears interest at the Federal short term rate in effect under section 1274(d) of the Internal Revenue Code.

Prior to July 30, 2002, the Company made a loan in the amount of $258,405 to Bruce J. Eisenberg, the Company's Executive Vice President Real Estate, in connection with income taxes due on restricted stock. As of the date hereof, $219,341 of the principal amount of the loan was outstanding. The loan bears interest at the Federal short term rate in effect under section 1274(d) of the Internal Revenue Code.

Mr. Solow, a member of the Company's Board of Directors, is a partner of the law firm Kaye Scholer LLP, which rendered legal services to the Company in 2003. Kaye Scholer will conclude its representation of the Company in 2004.

Employment Agreements

As founder and Chief Executive Officer of the Company, Robert J. Higgins has been instrumental in the operations of the Company. During fiscal 2003, Mr. Higgins was employed as Chief Executive Officer of the Company pursuant to an employment agreement that is in effect until April 30, 2008, unless earlier terminated pursuant to its terms. Pursuant to its terms, Mr. Higgins earns a minimum annual salary of $1,200,000, is reimbursed for two club memberships, and is entitled to payment of or reimbursement for life insurance premiums of an amount which has an annual net after tax cost to the Company of up to $150,000 per year on insurance policies for the benefit of persons designated by Mr. Higgins. In addition, Mr. Higgins is eligible to participate in the Company's executive bonus plan, health and accident insurance plans, stock option plans and in other fringe benefit programs adopted by the Company for the benefit of its executive employees. For the fiscal year ended January 31, 2004, Mr. Higgins received $1,674,000 in incentive compensation under the employment agreement.

In the event of a change in control of the Company, Mr. Higgins may elect to serve as a consultant to the Company at his then current compensation level for the remainder of the term of the Employment Agreement or elect to receive 2.99 times his annual compensation in the most recently completed fiscal year. The employment agreement provides for no further compensation to Mr. Higgins if he is terminated for cause, as defined therein.

EXECUTIVE COMPENSATION

Compensation Committee Report on Executive Compensation

Compensation and Purpose of the Compensation Committee. The Company's Compensation Committee (the "Committee") was comprised during fiscal 2003 of three non-employee directors of the Company. Mr. Cohen was added to the Compensation Committee upon his appointment to the Board. It is the Company's policy to constitute the Committee with directors that qualify as outside directors under Section 162(m) of the Internal Revenue Code.

The Committee's purpose is to hire, develop and retain the highest quality managers possible. It is principally responsible for establishing and administering the executive compensation program of the Company. These duties include approving salary increases for the Company's key executives and administering both the annual incentive plan and stock option plans.

Compensation Philosophy and Overall Objectives. The components of the executive compensation program are salary, annual incentive awards and stock options. This program is designed to: (1) attract and retain competent people with competitive salaries; (2) provide incentives for increased profitability; and (3) align the long-term interests of management with the interests of shareholders by encouraging executive ownership of Common Stock.

Salary and Annual Incentive Compensation

Salaries. The Committee believes that it is necessary to pay salaries that are competitive within the industry and geographic region in order to attract the types of executives needed to manage the business. Annual salary recommendations for the Company's executive officers (other than the Chief Executive Officer) are made to the Committee by the Chief Executive Officer. The Committee reviews and then approves, with any modifications it deems appropriate, such recommendations. Factors such as increased management responsibility and achievement of operational objectives are considered, but not formally weighted, in determining an increase. The Committee believes that it must keep the base pay component competitive to continue to attract competent management.

Annual Performance Incentives. Key executives, including the named executive officers, were eligible for annual incentive (bonus) awards based on the performance of the Company against predetermined targets.

For 2003, the Committee established as the principal goal a targeted level of operating income before bonuses would be paid to executive officers. Each named executive officer was eligible to earn from 17.5% to 150% of his salary in incentive payments if the targets were achieved by the Company. Below a certain target level no incentives were to be paid. Because the Company's operating income exceeded predetermined targets, each of the named executives received annual incentive payments as outlined in the "SUMMARY COMPENSATION TABLE."

Long-Term Incentives

The Committee uses a broad-based stock option plan, with over 500 participants, as the principal long-term incentive for executives. The stock option plan is designed to encourage executive officers to become shareholders and to achieve meaningful increases in shareholder value. The Committee normally grants stock options to executive officers annually. The level of stock option grants is determined using a matrix that considers the executive's position, salary level, and performance as measured by the individual's performance rating.

The Company also has a restricted stock plan which the Committee may use to grant awards of Common Stock to officers and other key employees of the Company. The Committee believes that the Company's long-term goals are best achieved through long-term stock ownership. The level of awards is granted at the discretion of the Committee.

Chief Executive Officer's Compensation

The Chief Executive Officer was compensated in fiscal 2003 pursuant to an employment agreement, approved by the Committee, which will be in effect through April 30, 2008. Mr. Higgins' base annual compensation, pursuant to the agreement, is $1,200,000 with annual increases based on performance, as determined by the Committee. The employment agreement provides for participation in the management bonus plan at a level of 0% to a maximum of 150% of his salary if certain targets are achieved by the Company. Because the Company's operating income exceeded predetermined targets, the Chief Executive Officer received an annual incentive payment as outlined in the "SUMMARY COMPENSATION TABLE."

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 chief executive officer or any of its four other highest paid officers. Qualifying performance based compensation will not be subject to the deduction limit if certain requirements are met. The Committee believes that it is necessary to pay salaries that are competitive within the industry and geographic region in order to continue to attract the types of executives needed to manage the business. Executive compensation is structured to avoid limitations on deductibility where this result can be achieved consistent with the Company's compensation goals.

Compensation Committee Interlocks and Insider Participation

There were no compensation committee interlocks during fiscal 2003. None of the Committee's members was an officer or employee of the Company, a former officer of the Company, or a party to any relationship requiring disclosure under Item 404 of Regulation S-K.

Compensation Committee of the Board of Directors

Martin E. Hanaka, Chairman
Mark A. Cohen
George W. Dougan
Isaac Kaufman

Notwithstanding anything to the contrary set forth in the Company's previous filings under the Securities Act of 1933 or under the Securities Exchange Act of 1934 that might incorporate future filings, including this Proxy Statement, in whole or in part, the preceding report of the Compensation Committee and the performance graph below shall not be incorporated by reference to such filings.

Executive Officers and Compensation

The Company's executive officers (other than Mr. Higgins whose biographical information is included under "Election of Directors" herein) are identified below. At year end, four officers met the definition of "executive officer" under applicable regulations for the fiscal year 2003, including the Chief Executive Officer. Executive officers of the Company currently hold the same respective positions with Record Town, Inc., the Company's wholly-owned subsidiary through which all retail operations are conducted.

Bruce J. Eisenberg has been Executive Vice President of Real Estate at the Company since May 2001. 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.

Fred Fox has been Executive Vice President of Merchandising and Marketing at the Company since February 2002. Prior to joining Trans World, Mr. Fox held several key executive level positions within OfficeMax and Montgomery Ward as well as various management positions within Circuit City Incorporated, Target Stores and Fischer Scientific Company, LLC.

John J. Sullivan has been Executive Vice President, Chief Financial Officer and Secretary of the Company since May 2002. Mr. Sullivan joined the Company in June 1991 as the Corporate Controller and was named Vice President of Finance and Treasurer in June of 1994, Senior Vice President of Finance, Treasurer and Chief Financial Officer in May 1995 and Executive Vice President, Treasurer and Chief Financial Officer in May 2001. Prior to joining the Company, Mr. Sullivan was Vice President and Controller for Ames Department Stores, a discount department store chain.

The summary compensation table sets forth the compensation paid by the Company and its subsidiaries for services rendered in all capacities during the last three fiscal years to the Chief Executive Officer and each of the three executive officers of the Company whose cash compensation for that year exceeded $100,000 (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation Awards		
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation ($)**	**Restricted Stock Award(s) ($)**	**Securities Underlying Options/ SARS (#)**	**All Other Compensation ($)**
Robert J. Higgins	2003	1,116,000	1,674,000	160,479(1)		1,000,000	6,323(4)
Chairman and Chief	2002	1,066,000		201,974(1)		550,000	6,670(4)
Executive Officer	2001	1,030,000		260,877(1)	196,900	500,000	5,274(4)
Bruce J. Eisenberg	2003	317,625	320,000	(2)		150,000	6,061(4)
Executive Vice	2002	307,875		(2)		60,000	5,457(4)
President-	2001	287,495		(2)	89,500	50,000	5,581(4)
Real Estate							
Fred Fox	2003	307,500	310,000	75,096(3)		150,000	
Executive Vice	2002	280,385				150,000	
President-	2001						
Merchandising and							
Marketing							
John J. Sullivan	2003	321,207	320,000	(2)		150,000	6,283(4)
Executive Vice	2002	307,875		(2)		60,000	5,815(4)
President,	2001	287,495		(2)	89,500	50,000	5,581(4)
Chief Financial							
Officer and Secretary							

(1) "Other Annual Compensation" in fiscal 2003, 2002 and 2001 for Mr. Higgins includes $150,000, $154,755, and $166,692, respectively, in payments for, or reimbursement of, life insurance premiums made on behalf of Mr. Higgins or his beneficiaries, pursuant to his employment agreement.

(2) "Other Annual Compensation" for the named executive was less than $50,000 and also less than 10% of the total annual salary and bonus reported.

(3) "Other Annual Compensation" for the named executive was for relocation expenses.

(4) "All Other Compensation" for the named executive consists of employer matching contributions for the 401(k) Savings Plan.

Stock Option Plans

The Company has five employee stock option plans with an aggregate of 14,800,000 shares (collectively referred to as the "Stock Option Plan"). Stock Options are exercisable annually in 4 equal installments, commencing on the first anniversary of the date of the grant. The stock options have a term of ten years. All options granted under the Stock Option Plan may become immediately exercisable upon the occurrence of certain business combinations. The compensation committee of the Board of Directors may accelerate or extend the term of any options subject to such terms and conditions as the compensation committee deems appropriate. The option exercise price was set at the fair market value (last reported sale price) on the date of grant. The following tables set forth, as to each of the Named Executive Officers, certain information with respect to all options granted or exercised for the fiscal year ended January 31, 2004, under the Stock Option Plan.

STOCK OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information concerning individual grants of stock options made during the fiscal year ended January 31, 2004, to each of the Named Executive Officers.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price Per Share	Expiration Date	5%	10%
Robert J. Higgins	1,000,000	42.6%	$ 3.50	5/1/2013	$ 8,716,710	$ 15,953,068
Bruce J. Eisenberg	150,000	6.4%	$ 3.50	5/1/2013	1,307,506	2,392,960
Fred Fox	150,000	6.4%	$ 3.50	5/1/2013	1,307,506	2,392,960
John J. Sullivan	150,000	6.4%	$ 3.50	5/1/2013	1,307,506	2,392,960

(1) These amounts are based on assumed appreciation rates of 5% and 10% as prescribed by the Securities and Exchange Commission rules, and are not intended to forecast possible future appreciation, if any, of the Company's stock price. The Company's stock price was $7.50 at January 30, 2004.

On May 1, 2003, stock options representing 1,000,000 shares of Common Stock were granted to Mr. Higgins subject to the following vesting arrangement: options representing 500,000 shares will vest over a 4-year period and options representing 500,000 shares will vest pursuant to a 5-year cliff vesting arrangement with a performance accelerator clause. The performance acceleration will apply at such time as Mr. Higgins recommends, and the Board of Directors approves, a successor chief executive officer for Trans World Entertainment Corporation. If a successor chief executive officer is hired before the 5-year cliff vesting is satisfied, the 500,000 shares vest in full.

AGGREGATED STOCK OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table sets forth information concerning each exercise of stock options made during the fiscal year ended January 31, 2004, by each of the Named Executive Officers of the Company, and the value of unexercised stock options held by such person as of January 31, 2004.

			Number of Securities Underlying Unexercised Options at Fiscal Year End (#)	Value of Unexercised In-the-Money Options at Fiscal Year End ($)
Name	Shares Acquired on Exercise (#)	Value Realized ($)	Exercisable/ Unexercisable	Exercisable/ Unexercisable(1)
Robert J. Higgins			1,737,500/1,862,500	0/4,000,000
Bruce J. Eisenberg	60,000	100,486	386,750/253,750	1,244,709/600,000
Fred Fox			25,000/275,000	0/600,000
John J. Sullivan	30,000	54,617	408,750/253,750	1,383,125/600,000

(1)

Calculated on the basis of the fair market value of the underlying securities as of January 30, 2004, minus the exercise price.

FIVE-YEAR PERFORMANCE GRAPH

The following line graph reflects a comparison of the cumulative total return of the Company's Common Stock from January 29, 1999 through January 30, 2004 with the Nasdaq Index (U.S. Stocks) and with the Nasdaq National Market Retail Trade Stocks index. Because only one 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 29, 1999, and that all dividends were reinvested.

	1999	2000	2001	2002	2003	2004
Trans World Entertainment Corporation	100	63	63	54	22	51
NASDAQ (U.S.)	100	156	109	77	53	82
NASDAQ Retail Trade Stocks	100	81	63	74	60	88

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 processes on behalf of the Board of Directors. The Audit Committee has reviewed and discussed the Company's audited financial statements with management. The Audit Committee has discussed with KPMG LLP, the Company's independent accountants, the matters required to be discussed by Statement on Auditing Standards 61 (Communications with Audit Committees). The Audit Committee has reviewed the internal audit function of the Company, including proposed programs for the current year and the coordination of

such programs with the independent accountants. The Audit Committee also has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) 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. 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 January 31, 2004 be included in the Company's Annual Report on Form 10-K for the Company's fiscal year ended January 31, 2004.

Audit Committee of the Board of Directors

Isaac Kaufman (Chairman)
Michael Solow
Joseph Morone
Edmond Thomas

OTHER MATTERS

Other Items. Management knows of no other items or matters that are expected to be presented for consideration at the meeting. If other matters properly come before the meeting, however, 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 29, 2005. 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 of Shareholders 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 has expressed its satisfaction with KPMG LLP in all of these respects. 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. In this respect, the Audit Committee has concluded that the ability of KPMG LLP to perform services for the Company is in no way adversely affected by any such investigation or litigation. The following is a description of the fees billed to the Company by KPMG LLP for fiscal years 2003 and 2002.

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'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 2003 and 2002 totaled $281,578 and $277,000, 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 2003 and 2002 totaled $10,000 and $9,000, respectively.

Tax fees. Tax fees include corporate tax compliance and counsel and advisory services. The aggregate fees billed to the Company by KPMG LLP for tax related services rendered to the Company and its subsidiaries for fiscal years 2003 and 2002 totaled $127,689 and $43,697, respectively. Deloitte & Touchéwill be the Company's primary tax advisor in 2004.

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 2003 Annual Report to Shareholders (which does not form a part of the proxy solicitation material), including financial statements for the fiscal year ended January 31, 2004 is being sent concurrently to shareholders. If you have not received or had access to the 2003 Annual Report to Shareholders, you may request a free copy by writing to: Trans World Entertainment, Attention: Treasurer, 38 Corporate Circle, Albany, New York 12203.

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 2005 must submit the same in writing so as to be received at the executive offices of the Company on or before January 15, 2005. 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 John J. Sullivan, Secretary, Trans World Entertainment Corporation, 38 Corporate Circle, Albany, NY 12203. No such proposals were received with respect to the annual meeting scheduled for June 16, 2004.

By Order of the Board of Directors,

John J. Sullivan,
Secretary

May 19, 2004

Appendix A

TRANS WORLD ENTERTAINMENT CORPORATION

CHARTER OF THE AUDIT COMMITTEE

OF THE

BOARD OF DIRECTORS

A. FORMATION OF THE AUDIT COMMITTEE

There shall be a committee of the Board of Directors (the "Board") of Trans World Entertainment Corporation, a New York corporation (the "Company"), to be known as the "Audit Committee" (the "Committee"). The Committee shall be composed of directors who are independent of the management of the Company and are free of any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a committee member. Without limiting the generality of the preceding sentence, the directors appointed to the Committee shall satisfy the independence requirements of the NASDAQ National Market and shall not be an affiliated person of the issuer or any subsidiary as defined under the Sarbanes-Oxley Act of 2002. The Committee shall consist of no fewer than three independent directors, for a term of appointment at the discretion of the Board of Directors, usually for one year. Compensation paid to a director, directly or indirectly, by the Company, other than compensation for board and committee services, regardless of the amount is prohibited. All members of the Committee shall have a working familiarity with basic finance and accounting practices, including the ability to read and understand financial statements at the time of their appointment, and at least one member of the Committee shall have accounting or related financial management experience, such that they would be considered a "financial expert" under applicable SEC rules. The Committee shall meet regularly at least four times annually, and special meetings may be called as circumstances require. The Committee will meet annually with management, the director of the internal auditing function and the independent accountants in separate executive sessions. In addition, the Committee, will meet with the independent accountants and management quarterly to review the Company's financials and public filings. The Company shall provide for appropriate funding, as determined by the Committee, for the performance of its duties, including compensation for the Company's independent accountants and any independent counsel and advisors retained by the Committee.

B. RESPONSIBILITIES OF THE COMMITTEE

The Committee shall assist the corporate directors in fulfilling their responsibility to the Company's shareholders, potential shareholders and the investment community, with specific attention to the Company's accounting function, its SEC and NASDAQ reporting practices, and the quality and integrity of the Company's system of internal and disclosure controls regarding finance, accounting, legal compliance and ethics. It is the responsibility of the Audit Committee to maintain free and open means of communication among the corporate directors, the independent accountants, the internal auditor (if any), general counsel and outside counsel to the Company, and the financial management of the Company.

C. DUTIES OF THE COMMITTEE

In carrying out its responsibilities, the Committee shall:

1. **Review the Charter.** Review this charter periodically, at least annually, and update it as conditions dictate.

2. **Select, authorize and oversee accountants.** Have the sole authority to review, select and appoint the independent accountants to audit the books of the Company and its divisions or subsidiaries. Approve the compensation of independent accountants, oversee the work of the independent accountants and resolve disagreements between management and the accountants.

3. **Authorize and oversee independent counsel.** Appoint and approve compensation for independent counsel and advisors, including legal, accounting and other experts, as deemed necessary, to obtain clarifications and opinions on the financial statements, litigation and any other matters as considered necessary.

4. **Audit Plan.** Meet with the independent accountants and financial management of the Company to review the scope of the proposed external audit for the current fiscal year and the audit procedures to be utilized and, at the conclusion of the audit, review any comments or recommendations of the independent accountants. As part of the audit plan, the Committee shall review the process of assessing the risk of fraudulent financial reporting in any material respect, and the procedures that the independent accountants plan to undertake in the audit.

5. **Approve non-audit services provided by independent accountants.** Approve in advance all non-audit services provided by the independent accountant. Designate at least one member for approval of non-audit services and ratify such approval at the Audit Committee meeting immediately following the approval. Ensure that the Company publicly discloses approval for non-audit services in its periodic reports.

6. **Internal Accounting Controls.** Review with the independent accountants and the Company's financial and accounting management the adequacy and effectiveness of the internal auditing, accounting and financial controls of the Company, and elicit any recommendations for improvement of the internal control procedures or particular areas where new or more detailed controls or procedures may be desirable. Discuss guidelines and policies and govern the process by which risk assessment and management are undertaken.

7. **Accounting Principles.** Meet with financial management of the Company concerning any proposed changes in accounting principles of the Company and, subject to review with independent accountants, approve such changes.

8. **Related Party Transactions.** Review and approve all "related party" transactions with the Company's directors and officers.

9. **Code of Ethics.** Review and approve the Company's policy statements on ethical corporate conduct and determine whether the views of the Board are sufficiently detailed in the Company's formal Code of Ethics.

10. **Communication.** Establish open channels of communication such that the Company's employees can confidentially and anonymously express their concerns over accounting, internal control or auditing matters. Nominate one director who will receive such concerns. Employees may communicate with the Committee without fear of retaliation or liability for any use of the information provided.

11. **Proxy Report.** Prepare the Audit Committee report to be included in the Company's annual proxy statement, as required by the SEC.

12. **Internal Audit Function.** Review the internal audit function of the Company, including proposed programs for the current year and the coordination of such programs with the independent accountants, with particular attention to maintaining the most effective balance between independent and internal auditing resources.

13. **Operating Results.** Review, prior to each Committee meeting but no less than quarterly, a summary of the Company's financial results compared to plan and a revised forecast for the balance of the fiscal year provided by financial management.

14. **Review year-end and quarterly financial statements.** Review, prior to release, quarterly unaudited and annual audited financial statements, and MD&A, with management and the Company's independent accountants. Review of the year-end financial statements shall be accompanied by an explanation from management of all significant fluctuations in balance sheet and income statement line items compared to the preceding fiscal year and to plan. The Committee shall review the disclosures contained in the financial statements with the independent accountants to determine that the independent accountants are satisfied with such disclosures and the content of the financial statements to be presented to the shareholders. The Committee shall discuss with management, the press releases and earnings guidance provided to analysts and rating agencies although such discussions need not occur prior to the release or guidance.

15. **Review periodic reports.** Review and discuss with the management and the independent accountants the SEC filings made by the Company and other published documents containing the Company's financial statements, with attention to whether the information contained in these documents is consistent with the information contained in the financial statements.

16. **Accounting Accruals.** Inquire of financial management of the Company about the existence and substance of any significant accounting accruals, reserves or estimates made by management that had a material impact on the financial statements.

17. **Private Consultation with Independent Accountants.** Make available the independent accountants for private consultation at all meetings of the Committee; the independent accountants should be encouraged by the Committee to evaluate the Company's financial, accounting and auditing personnel, and describe the level of cooperation that the independent accountants received during the course of the audit. Review all critical accounting policies and practices to be used; discuss with the independent accountants all alternative treatments and disclosures of financial information within accounting principles generally accepted in the United States of America (GAAP), that have been discussed with management, their ramifications and the treatment preferred by the independent accountants; and all other material written communication between the independent accountants and the management. Ensure that independent accountants periodically submit formal written statements delineating all relationships between the accountant and the Company and discuss any disclosed relationships or services that may impact, or appear to impact, the objectivity and independence of the accountant and recommend that the Board take appropriate action regarding the accountant's independence. Discuss with the independent accountant matters required to be discussed by Statement of Auditing Standards No. 61 relating to the conduct of the audit.

18. **Hiring employees of the Independent Accountant.** Set clear hiring policies for employees or former employees of the independent accountants.

19. **Review of Legal Matters.** Meet at least annually with the appropriate officer of the Company and, if applicable or appropriate in the Committee's judgment, outside counsel, to review compliance with the Company's Code of Ethics and other policies and procedures, to discuss legal matters that may have a significant impact on the Company's financial statements and to review legal compliance matters including security trading policies. The Committee shall cause to be made an investigation into any matter brought to its attention within the scope of its duties, with the power to retain outside counsel for this purpose if, in its judgment, conduct of such an investigation is appropriate.

20. **Income Tax Matters.** Review once annually the open years on federal income tax returns, whether there are significant items that have been or might be disputed by the IRS, and inquire as to the status of the related tax reserves.

21. **Minutes.** Submit minutes of all the meetings of the Committee to the Company's Board.

22. **Letter from Audit Committee Chairman.** Submit once annually, at or about the time of the Company's Annual Meeting of Shareholders, a letter from the Committee Chairman setting forth to the Board a summary of the Committee's responsibilities and activities.

23. **Qualified Legal Compliance Committee.** The Committee shall serve as the Company's Qualified Legal Compliance Committee ("QLCC") within the meaning of and in accordance with 17 CFR Part 205. In such capacity, the Committee shall meet only as and when required to discharge its QLCC responsibilities.

In its capacity as the QLCC, the Committee shall:

1. Establish written procedures for the confidential receipt, retention and consideration of reports to the Committee by the appropriate officer of the Company or the Company's reporting attorneys that credible evidence of a material violation of an applicable United States federal or state securities law, a material breach of fiduciary duty arising under United States federal or state law or at common law, or a similar material violation of any United States federal or state law by the Company or its subsidiaries or by any officer, director, employee or agent of the Company or its subsidiaries has occurred, is ongoing or is about to occur (each, a "Material Violation").

2. Inform the appropriate officer of the Company, the Company's Chief Executive Officer and the Company's Chairman of the Board of any evidence of a Material Violation that is reported to the Committee (unless the Committee reasonably believes that it would be futile to report such evidence of Material Violation to such persons).

3. Determine whether an investigation is necessary regarding any evidence of a Material Violation that is reported to the Committee by the appropriate officer of the Company or reporting attorneys.

4. If the Committee determines an investigation is necessary or appropriate in relation to a report of evidence of a Material Violation: (i) notify the Board; (ii) initiate an investigation, which may be conducted either by the appropriate officer of the Company or by outside attorneys; and (iii) retain such additional expert personnel as the Committee deems necessary. At the conclusion of any such investigation: (i) recommend to the Board, by majority vote, that the Company implement an appropriate response to the evidence of a Material Violation; and (ii) inform the the appropriate officer of the Company, the Company's Chief Executive Officer, the Company's Chairman of the Board and the Company's Board of Directors of the results of any such investigation and the appropriate remedial measures to be adopted.

5. Acting by majority vote, take all other appropriate actions to respond to evidence of a Material Violation that is reported to the Committee by the appropriate officer of the Company or reporting attorney, including the authority to notify the Securities and Exchange Commission in the event the Company fails in any material respect to implement the appropriate response that the Committee has recommended the Company to take.

April 2004

Appendix B

TRANS WORLD ENTERTAINMENT CORPORATION

CHARTER OF THE COMPENSATION COMMITTEE

OF THE BOARD OF DIRECTORS

A. FORMATION OF THE COMPENSATION COMMITTEE

There shall be a committee of the Board of Directors (the "Board") of Trans World Entertainment Corporation, a New York corporation (the "Company") to be known as the "Compensation Committee" (the "Committee"). The Committee shall be composed of directors who are independent of the management of the Company and are free of any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a committee member. Without limiting the generality of the preceding sentence, the directors appointed to the Committee shall satisfy the independence requirements of the NASDAQ National Market, shall not be an affiliated person of the issuer or any subsidiary as defined under the Sarbanes-Oxley Act of 2002 and, if deemed appropriate from time to time, meet the definition of "non-employee director" under Rule 16b-3 under the Securities Exchange Act of 1934, and "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986. The Committee shall consist of no fewer than three independent directors, for a term of appointment at the discretion of the Board of Directors, considering the recommendation of the Nominating & Governance Committee, and further considering the views of the Chairman of the Board and the Chief Executive Officer, as appropriate, usually for one year. The members of the Committee shall serve until their successors are appointed and qualify, and shall designate the Chairman of the Committee. The Board shall have the power at any time to change the membership of the Committee and to fill vacancies in it, subject to such new member(s) satisfying the above requirements and any other corporate legislation in effect at that time. Except as expressly provided in this Charter or the by-laws of the Company, the Committee shall fix its own rules of procedure.

B. RESPONSIBILITIES OF THE COMMITTEE

The Committee shall:

(a) discharge the Board's responsibilities relating to compensation of the Company's executives and

(b) prepare an annual report on executive compensation for inclusion in the Company's proxy statement in accordance with applicable rules and regulations.

C. DUTIES OF THE COMMITTEE

In carrying out its responsibilities, the Committee shall:

1. **Review and approve all executive compensation.** The Committee shall review and approve corporate goals and objectives relevant to all executive officer compensation, evaluate each executive officer's performance in light of those goals and objectives, and set the executive compensation level based on this evaluation. In determining the long-term incentive component of executive officers compensation, the Committee should consider the Company's performance and relative shareholder return, the value of similar incentive awards to executive officers at comparable companies, and the awards given to the Company's executive officers in past years.

2. **Annual Review.** The Committee shall annually review and make recommendations to the Board with respect to the compensation of all officers and other key executives.

3. **Recommendations to the Board.** The Committee shall make recommendations to the Board with respect to incentive compensation plans and equity-based plans.

4. **Authority to retain consultants.** The Committee shall have the sole authority to retain and terminate any compensation consultant to be used to assist in the evaluation of director, Chief Executive Officer or senior executive compensation and shall have sole authority to approve the consultant's fees and other retention terms.

5. **Authorize and oversee independent counsel.** The Committee shall also have authority to obtain advice and assistance from internal or external legal, accounting or other advisors as deemed necessary or appropriate.

6. **Administer awards and incentives.** The Committee shall adopt, administer, approve and ratify awards under incentive compensation and stock plans, including amendments to the awards made under any such plans, and review and monitor awards under such plans.

7. **Periodic reports.** The Committee shall make periodic reports to the Board.

8. **Review of Charter.** The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

9. **Review Committee performance.** The Committee shall annually review its own performance.

10. **Delegation of authority.** The Committee may form and delegate authority to subcommittees when appropriate.

11. **Review overall compensation for officer employees.** The Committee shall review the overall compensation structure of the Company to determine that it establishes appropriate incentives for officer employees at all levels. All incentives, while industry-dependent and different for different categories of officers should further the Company's long-term strategic plan and be consistent with the culture of the Company and the overall goal of enhancing shareholder value.

April 2004

APPENDIX C

TRANS WORLD ENTERTAINMENT CORPORATION

CHARTER OF THE NOMINATING AND CORPORATE GOVERNANCE

COMMITTEE OF THE

BOARD OF DIRECTORS

A. FORMATION OF THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

There shall be a committee of the Board of Directors (the "Board") of Trans World Entertainment Corporation, a New York corporation (the "Company"), to be known as the "Nominating and Corporate Governance Committee" (the "Committee"). The Committee shall be composed of directors who are independent of the management of the Company and are free of any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a Committee member. Without limiting the generality of the preceding sentence, the directors appointed to the Committee shall satisfy the independence requirements of the NASDAQ National Market and shall not be an affiliated person of the issuer or any subsidiary as defined under the Sarbanes-Oxley Act of 2002. The Committee shall consist of no fewer than three independent directors, for a term of appointment at the discretion of the Board of Directors, considering the views of the Chairman of the Board and the Chief Executive Officer, as appropriate, usually for one year. The members of the Committee shall serve until their successors are appointed and qualify, and shall designate the Chairman of the Committee. The Board shall have the power at any time to change the membership of the Committee and to fill vacancies in it, subject to such new member(s) satisfying the above requirements and any other corporate legislation in effect at that time. The Committee may form and delegate authority to subcommittees when appropriate, and shall meet as necessary, but at least once each year, in order to enable it to fulfill its responsibilities and duties as set forth herein. Except as expressly provided in this Charter, the by-laws of the Company and any applicable corporate governance guidelines of the Company, the Committee shall fix its own rules of procedure.

B. RESPONSIBILITIES OF THE COMMITTEE

The Committee shall (1) assist the Board in identifying individuals qualified to become Board members and recommend to the Board the director nominees for the next annual meeting of shareholders; (2) recommend members of the Board to serve on the committees of the Board; (3) recommend to the Board individuals qualified to be elected as officers of the Company; (4) recommend to the Board the corporate governance and business ethics policies, principles, guidelines and codes of conduct applicable to the Company; and (5) lead the Board in its annual review of the Board's performance.

C. DUTIES OF THE COMMITTEE

NOMINATING. The Committee shall:

Develop policies on the size and composition of the Board and qualification criteria, as prescribed by corporate legislation and NASDAQ rules, for Board members in order to insure that the Board is comprised of members reflecting the proper expertise, skills, attributes and personal and professional backgrounds for service as a director of the Company and who have sufficient time available to devote to the affairs of the Company;

Actively seek, interview and screen individuals qualified to become Board members for recommendation to the Board;

Receive suggestions concerning possible candidates for election to the Board, including self-nominations, nominations from shareholders in accordance with the Company's by-laws and other third-party nominations;

Recommend to the Board individuals for vacancies occurring from time to time on the Board, including vacancies resulting from an increase in the size of the Board;

Recommend the slate of nominees to be proposed for election at each annual meeting of shareholders;

Recommend members of the Board to serve on the committees of the Board; and

Recommend to the Board individuals qualified to be elected as officers of the Company.

CORPORATE GOVERNANCE. The Committee shall:

Develop and recommend to the Board a set of corporate governance and business ethics policies, principles, guidelines and codes of conduct applicable to the Company and its directors, officers and employees;

Review and reassess at least annually the adequacy of the Company's corporate governance and business ethics policies, principles, guidelines and codes of conduct in light of emerging issues and developments related to corporate governance and other factors and formulate and recommend any proposed changes to the Board for approval;

Generally advise the Board as a whole on corporate governance matters;

Review and reassess at least annually the adequacy of this Charter and recommend any proposed changes to the Board for approval;

Annually review its own performance; and

Review and assess the management succession plan for the Chief Executive Officer position.

OTHER. The Committee shall have the authority to:

Request reports from internal or external sources on matters related to its authority and duties as described in this Charter and on any subject that it deems related to its responsibilities;

Retain and terminate any search firm to be used to identify director or officer candidates and to approve the search firm's fees and other retention terms;

Receive communications from shareholders and provide copies or summaries of such communications to the other Directors, as the Chairman of the Committee considers appropriate;

Retain and terminate outside accountants, legal counsel and other advisors to advise the Committee with respect to Committee matters as it may deem appropriate in its sole discretion and approve related fees and retention terms; and

Perform such other activities as the Committee or the Board may from time to time deem necessary or appropriate.

D. PROCEDURE FOR SHAREHOLDER NOMINATIONS

The Committee will consider nominations submitted by shareholders. To recommend a nominee, a shareholder must write to the Company's Secretary. To be considered by the Committee for nomination and inclusion in the Company's proxy statement for its annual meeting of shareholders, a shareholder recommendation for a director must be received by the Company's Secretary no later than the deadline for submitting shareholder proposals pursuant to Rule 14a-8(e) of the Securities Exchange Act of 1934.

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 Committee may seek additional biographical and background information from any candidate that must be received on a timely basis to be considered by the Committee. Assuming the appropriate biographical and background material is provided for candidates submitted by shareholders, the Committee will evaluate those candidates by applying substantially the same criteria, as for candidates submitted by Board members.

April 2004

Trans World Entertainment Corporation

Please Mark Here for Address Change or Comments o

SEE REVERSE SIDE

The Board of Directors recommends a vote FOR item 1.

Item 1 ELECTION OF DIRECTORS
Nominees:
01 Robert J. Higgins, 02 Mark Cohen,
03 Dr. Joseph Morone and 04 Edmond Thomas

Item 2 In their discretion, the Proxies are authorized to vote upon all other matters that properly may be presented at the meeting.

FOR	WITHHELD FOR ALL
o	o

Plan to Attend Meeting o

WITHHELD FOR: (Write that nominee's name in the space provided below).

Signature ____________ **Signature** ____________ **Date** ____________

NOTE: Please sign as name appears herein. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

FOLD AND DETACH HERE

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

TRANS WORLD ENTERTAINMENT CORPORATION

The undersigned hereby appoints Robert J. Higgins and John J. Sullivan proxies, with power to act without the other and with power of substitution, and hereby authorizes them to represent and vote, as designated on the other side, all the shares of stock of Trans World Entertainment Corporation standing in the name of the undersigned with all powers which the undersigned would possess if present at the Annual Meeting of Stockholders of the Company to be held June 16, 2004 or any adjournment thereof.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED "FOR" PROPOSAL 1.

(Continued, and to be marked, dated and signed, on the other side)

Address Change/Comments (Mark the corresponding box on the reverse side)

FOLD AND DETACH HERE

You can now access your Trans World Entertainment account online.

Access your Trans World Entertainment shareholder account online via Investor ServiceDirect® (ISD).

Mellon Investor Services LLC, Transfer Agent for Trans World Entertainment, now makes it easy and convenient to get current information on your shareholder account.

- View account status
- View certificate history
- View book-entry information
- View payment history for dividends
- Make address changes
- Obtain a duplicate 1099 tax form
- Establish/change your PIN

Visit us on the web at http://www.melloninvestor.com

For Technical Assistance Call 1-877-978-7778 between 9am-7pm
Monday-Friday Eastern Time

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