

TRANS WORLD ENTERTAINMENT CORP

Form 10-Q

December 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

S QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED NOVEMBER 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)

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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 S No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer S Non-accelerated filer ☐
Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Common Stock, \$.01 par value,

31,457,720 shares outstanding as of November 28, 2014

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Form
10-Q

Page
No.

PART I. FINANCIAL INFORMATION

Item 1 – Interim Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets at November 1, 2014, February 1, 2014 and November 2, 2013 3

Condensed Consolidated Statements of Operations – Thirteen and Thirty-nine Weeks Ended November 1, 2014 and November 2, 2013 4

Condensed Statements of Comprehensive Loss – Thirteen and Thirty-nine Weeks Ended November 1, 2014 and November 2, 2013 5

Condensed Consolidated Statements of Cash Flows – Thirty-nine Weeks Ended November 1, 2014 and November 2, 2013 6

Notes to Condensed Consolidated Financial Statements 7

Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations 13

Item 3 – Quantitative and Qualitative Disclosures about Market Risk 21

Item 4 – Controls and Procedures 21

PART II. OTHER INFORMATION

Item 1 – Legal Proceedings 22

Item 1A- Risk Factors 22

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds 22

Item 3 – Defaults Upon Senior Securities 22

Item 4 – Mine Safety Disclosures 22

Item 5 – Other Information 22

Item 6 – Exhibits 23

Signatures

2

24

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES**PART 1. FINANCIAL INFORMATION****Item 1 - Financial Statements****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except per share and share amounts)****(unaudited)**

	November 1, 2014	February 1, 2014	November 2, 2013
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$79,366	\$131,002	\$86,028
Merchandise inventory	158,017	150,167	174,884
Other current assets	11,041	9,798	13,812
Total current assets	248,424	290,967	274,724
NET FIXED ASSETS	16,709	12,419	12,647
OTHER ASSETS	9,270	9,031	9,028
TOTAL ASSETS	\$274,403	\$312,417	\$296,399
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	\$69,335	\$77,625	\$72,971
Accrued expenses and other current liabilities	6,976	7,873	8,768
Deferred revenue	8,996	10,092	9,788
Current portion of capital lease obligations	1,075	1,066	1,031
Total current liabilities	86,382	96,656	92,558
CAPITAL LEASE OBLIGATIONS, less current portion	142	938	1,218
OTHER LONG-TERM LIABILITIES	23,707	23,027	24,766
TOTAL LIABILITIES	110,231	120,621	118,542
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; 58,325,668, 58,298,668 and 58,166,752 shares issued, respectively)	583	583	582
Additional paid-in capital	315,343	314,932	314,418
Treasury stock at cost (26,797,074, 26,108,846 and 25,823,001 shares, respectively)	(225,423)	(222,948)	(221,723)
Accumulated other comprehensive income (loss)	315	(119)	(2,235)
Retained earnings	73,354	99,348	86,815
TOTAL SHAREHOLDERS' EQUITY	164,172	191,796	177,857
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$274,403	\$312,417	\$296,399

See Accompanying Notes to Condensed Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share amounts)****(unaudited)**

	Thirteen Weeks Ended November		Thirty-nine Weeks Ended November	
	1, 2014	2, 2013	1, 2014	2, 2013
Net sales	\$72,456	\$ 79,772	\$231,580	\$254,473
Cost of sales	43,922	49,032	142,222	155,930
Gross profit	28,534	30,740	89,358	98,543
Selling, general and administrative expenses	32,520	33,552	97,772	101,229
Loss from operations	(3,986)	(2,812)	(8,414)	(2,686)
Interest expense, net	469	481	1,429	1,451
Loss before income tax expense	(4,455)	(3,293)	(9,843)	(4,137)
Income tax expense	21	22	115	119
Net loss	\$(4,476)	\$(3,315)	\$(9,958)	\$(4,256)

BASIC AND DILUTED LOSS PER SHARE:

Basic and diluted loss per share	\$(0.14)	\$(0.10)	\$(0.31)	\$(0.13)
Weighted average number of common shares outstanding – basic and diluted	31,627	32,586	31,860	32,673

See Accompanying Notes to Condensed Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Thirteen Weeks Ended November 1, 2, 2014 2013		Thirty-nine Weeks Ended November 1, 2, 2014 2013	
Net loss	\$ (4,476)	\$ (3,315)	\$ (9,958)	\$ (4,256)
Amortization of prior service cost	145	180	434	540
Comprehensive loss	\$ (4,331)	\$ (3,135)	\$ (9,524)	\$ (3,716)

See Accompanying Notes to Condensed Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Thirty-nine Weeks Ended	
	November 1, 2014	November 2, 2013
Net cash used by operating activities	\$(24,995)	\$(40,020)
Cash flows from investing activities:		
Purchases of fixed assets	(7,390)	(6,861)
Net cash used by investing activities	(7,390)	(6,861)
Cash flows from financing activities:		
Cash dividends paid	(16,036)	—
Payments of capital lease obligations	(787)	(691)
Exercise of stock options	47	4,786
Purchase of treasury stock	(2,475)	(4,168)
Net cash used by financing activities	(19,251)	(73)
Net decrease in cash and cash equivalents	(51,636)	(46,954)
Cash and cash equivalents, beginning of period	131,002	132,982
Cash and cash equivalents, end of period	\$79,366	\$86,028
Issuance of shares under deferred share plan	—	\$50

See Accompanying Notes to Condensed Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

November 1, 2014 and November 2, 2013

Note 1. Nature of Operations

Trans World Entertainment Corporation and subsidiaries (“the Company”) is one of the largest specialty retailers of entertainment products, including video, music, electronics, trend, video games and related products in the United States. The Company operates a chain of retail entertainment stores, primarily under the names f.y.e. for your entertainment and Suncoast Motion Pictures, and e-commerce sites, www.fye.com, www.wherehouse.com, and www.secondspin.com in a single industry segment. As of November 1, 2014, the Company operated 327 stores totaling approximately 1.9 million square feet in the United States and the Commonwealth of Puerto Rico.

Liquidity and Cash Flows:

The Company’s primary sources of working capital are cash and cash equivalents on hand, cash provided by operations and borrowing capacity under its revolving credit facility (See Note 6 for further details). 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 and the related terms on the purchases and capital expenditures. Management believes it will have adequate resources to fund its cash needs for the next twelve months and beyond, including its capital spending, its seasonal increase in merchandise inventory and other operating cash requirements and commitments.

Management anticipates that any future cash requirements due to a shortfall in cash from operations would be funded by the Company’s cash and cash equivalents on hand and its revolving credit facility.

Seasonality:

The Company’s business is seasonal, with the 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 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, store closings and the performance of existing stores.

Note 2. Basis of Presentation

The accompanying unaudited condensed 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 interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished in these unaudited condensed consolidated financial statements reflects all normal, recurring adjustments which, in the opinion of management, are necessary for the fair presentation of such financial statements. The

preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For the thirty-nine weeks ending November 1, 2014, the company recorded an adjustment to correct the liability for workers' compensation claims related to a prior period, which increased Selling, General and Administrative Expenses and Net Loss by approximately \$700,000. The cumulative effect of this adjustment is deemed immaterial. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to rules and regulations applicable to interim financial statements.

Selling, general and administrative expenses include miscellaneous income items, other than interest. The Company recorded miscellaneous income items of \$1.4 million for the thirteen weeks ended November 1, 2014 compared to an income of \$1.6 million for the thirteen weeks ended November 2, 2013. For the thirty-nine weeks ended November 1, 2014, the Company recorded miscellaneous income items of \$4.0 million, compared to income of \$4.5 million for the thirty-nine weeks ended November 2, 2013.

The information presented in the accompanying unaudited condensed consolidated balance sheet as of February 1, 2014 has been derived from the Company's February 1, 2014 audited consolidated financial statements. All other information has been derived from the Company's unaudited condensed consolidated financial statements as of and for the thirteen and thirty-nine weeks ended November 1, 2014 and November 2, 2013 .. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2014.

The Company's significant accounting policies are the same as those described in Note 1 to the Company's Consolidated Financial Statements on Form 10-K for the fiscal year ended February 1, 2014.

Note 3. Recently Adopted Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, ("ASU 2014-08"). This amendment changes the requirements for reporting discontinued operations and includes enhanced disclosures about discontinued operations. Under the amendment, only those disposals of components of an entity that represent a strategic shift that has a major effect on an entity's operations and financial results will be reported as discontinued operations in the financial statements. ASU 2014-08 is effective prospectively for annual periods beginning on or after December 15, 2014, and interim reporting periods within those years. Early adoption is permitted. The Company expects to adopt ASU 2014-08 as of the beginning of 2015 and it does not anticipate the adoption of ASU 2014-08 to have a material impact on the Company's consolidated financial position, cash flows, or results of operations.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 28, 2017. Early application is not permitted. The standard permits the use of either the

retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In August 2014, the FASB issued ASU No. 2014-15, Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires the Company to assess their ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of Company's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The new standard is effective for reporting periods beginning after December 15, 2016. Early application is permitted. The Company does not expect the adoption of this update to have a significant effect on our financial statements.

Note 4. Stock Based Compensation

As of November 1, 2014, there was approximately \$1.0 million of unrecognized compensation cost related to stock awards that is expected to be recognized as expense over a weighted average period of 1.7 years.

As of November 1, 2014, stock awards authorized for issuance under the Company's plans total 15.8 million. There are certain authorized stock awards for which the Company no longer grants awards. Of these awards authorized for issuance, 2.8 million were granted and are outstanding, 1.8 million of which were vested and exercisable. Awards available for future grants at November 1, 2014 were 3.0 million.

The table below outlines the assumptions that the Company used to estimate the fair value of stock based awards granted during the thirty-nine weeks ended November 1, 2014:

Dividend yield	0%
Expected stock price volatility	47.0%-66.8%
Risk-free interest rate	1.45%-2.18%
Expected award life (in years)	4.92-5.71
Weighted average fair value per share of awards granted during the period	\$1.93

The following table summarizes stock award activity during the thirty-nine weeks ended November 1, 2014:

Employee and Director Stock Award Plans					
	Number of Shares Subject To Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Other Share Awards⁽¹⁾	Weighted Average Grant Date Fair Value
Balance February 1, 2014	2,907,190	\$ 8.07	2.90	10,941	\$ 9.50
Granted	492,500	3.45	9.8	226,459	3.47
Exercised	(27,000)	1.73	—	—	—
Forfeited	(14,500)	3.66	—	—	—
Canceled	(752,590)	10.31	—	—	—
Balance November 1, 2014	2,605,600	\$ 6.64	4.28	237,400	\$ 3.75
Exercisable November 1, 2014	1,736,350	\$ 8.20	1.93	37,400	\$ 3.75

(1) Other Share Awards include deferred shares granted to Directors and restricted stock units granted to Chief Executive Officer.

As of November 1, 2014, the intrinsic value of stock awards outstanding was \$503,000 and exercisable was \$332,000.

Note 5. Defined Benefit Plans

The Company maintains a non-qualified Supplemental Executive Retirement Plan (“SERP”) for certain executive officers of the Company. The SERP provides eligible executives defined pension benefits that supplement benefits under other retirement arrangements. During the thirty-nine weeks ended November 1, 2014, the Company did not make any cash contributions to the SERP and presently expects to pay approximately \$103,000 in benefits relating to the SERP during Fiscal 2014.

The Company had previously provided the Board of Directors with a noncontributory, unfunded retirement plan (“Director Retirement Plan”) that paid retired directors an annual retirement benefit. During the thirty-nine weeks ended November 1, 2014, the Company did not make any cash contributions to the Director Retirement Plan, and presently expects to pay approximately \$34,000 in benefits relating to the Director Retirement Plan during Fiscal 2014.

The measurement date for the SERP and Director Retirement Plan is fiscal year end, using actuarial techniques which reflect estimates for mortality, turnover and expected retirement. In addition, management makes assumptions concerning future salary increases. Discount rates are generally established as of the measurement date using theoretical bond models that select high-grade corporate bonds with maturities or coupons that correlate to the

expected payouts of the applicable liabilities.

The following represents the components of the net periodic pension cost related to the Company's SERP and Director Retirement Plan for the respective periods:

	Thirteen weeks ended		Thirty-nine weeks ended	
	November 1, 2014		November 2, 2013	
	(in thousands)		(in thousands)	
Service cost	\$ 14	\$ 28	\$ 42	\$ 84
Interest cost	172	164	517	492
Amortization of prior service cost	180	181	540	543
Amortization of net gain	(35)	(1)	(106)	(3)
Net periodic pension cost	\$ 331	\$ 372	\$ 993	\$ 1,116

Note 6. Line of Credit

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. 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 inventory levels.

During the thirty-nine weeks of 2014 and 2013, the Company did not have any borrowings under the Credit Facility. As of November 1, 2014 and November 2, 2013, the Company had no outstanding letter of credit obligations under

the Credit Facility. The Company had \$65 million available for borrowing as of November 1, 2014 and November 2, 2013, respectively.

Note 7. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) that the Company reports in the condensed consolidated balance sheets represents the excess of accrued pension liability over accrued benefit cost, net of taxes, associated with the Company's defined benefit plans. Comprehensive income (loss) consists of net income or loss and the reclassification of pension costs previously reported in comprehensive income (loss) for the thirteen and thirty-nine weeks ended November 1, 2014 and November 2, 2013. Amortization of pension cost is recorded under selling, general and administrative expenses in the condensed consolidated statements of operations.

Note 8. Depreciation and Amortization of Fixed Assets

Depreciation and amortization of fixed assets included in the condensed consolidated statements of operations is as follows:

	Thirteen Weeks Ended November 1, 2014		Thirty-nine Weeks Ended November 1, 2014	
	November 2, 2013		November 2, 2013	
	(in thousands)		(in thousands)	
Cost of sales	\$129	\$ 116	\$380	\$ 361
Selling, general and administrative expenses	953	1,028	2,593	2,713
Total	\$1,082	\$ 1,144	\$2,973	\$ 3,074

Note 9. Income (Loss) Per Share

Basic income (loss) per share is calculated by dividing net income (loss) by the weighted average common shares outstanding for the period. Diluted income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock (net of any assumed repurchases) that then shared in the earnings of the Company, if any. It is computed by dividing net income (loss) 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.

For the thirteen and thirty-nine week periods ended November 1, 2014 and November 2, 2013, the impact of all outstanding stock awards was not considered because the Company reported a net loss and such impact would be anti-dilutive. Accordingly, basic and diluted loss per share is the same.

Note 10. Shareholders' Equity

During the thirty-nine weeks ending November 1, 2014, the Company repurchased 688,228 shares of common stock at an average price of \$3.60 per share. Since the inception of the program, the Company has repurchased 1,276,469 shares of common stock at an average price of \$3.98 per share. The Company has approximately \$17.0 million available for purchase under its repurchase program.

The Company classified the repurchased shares as treasury stock on the Company's balance sheet.

On March 6, 2014, our board of directors declared a special cash dividend of \$0.50 per common share, with an ex-dividend date of March 18, 2014. The total special dividend payout was \$16.0 million.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

PART 1. FINANCIAL INFORMATION

Item 2 - Management's Discussion and Analysis of Financial Condition and

Results of Operations

November 1, 2014 and November 2, 2013

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations provides information that the Company's management believes necessary to achieve an understanding of its financial statements 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 games 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 the unaudited condensed consolidated financial statements and related notes included elsewhere in this report and the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2014.

At November 1, 2014, the Company operated 327 stores totaling approximately 1.9 million square feet in the United States, the District of Columbia and the Commonwealth of Puerto Rico. The Company's stores offer predominantly entertainment product, including video and music. In total, these two categories represented 74% of the Company's net sales for the thirty-nine weeks ended November 1, 2014. The balance of categories, including trend, electronics, video games and related products represented 26% of the Company's net sales for the thirty-nine weeks ended November 1, 2014.

The Company's results have been, and will continue to be, contingent upon management's ability to understand industry trends and to manage the business in response to those trends and general economic trends. Management monitors a number of key performance indicators to evaluate its performance, including:

Net sales and comparable store net sales: The Company measures and reports 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 net sales if the change in square footage is greater than 20%. Closed stores that were open for at least thirteen months are included in comparable store net 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 impacted primarily by the mix of products sold, by discounts negotiated with vendors and discounts offered to customers. The Company records its distribution and product shrink expenses in cost of sales. Distribution expenses include those costs associated with receiving, shipping, inspecting and warehousing product and costs associated with

product returns to vendors. Cost of sales further includes obsolescence costs and is reduced by the benefit of vendor allowances, net of direct reimbursements of expense.

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 disclosed in Note 8 to the condensed consolidated financial statements). SG&A expenses also include fixed asset and write-offs associated with store closures, if any, and miscellaneous income and expense items, other than interest.

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 relevant indicators of its financial position. See Liquidity and Capital Resources for further discussion of these items.

RESULTS OF OPERATIONS

Thirteen and Thirty-nine Weeks Ended November 1, 2014

Compared to the Thirteen and Thirty-nine Weeks Ended November 2, 2013

The following table sets forth a period over period comparison of the Company’s net sales by category:

	Thirteen weeks ended			Comp Store Net Sales	Thirty-nine weeks ended				Comp Store Sales
	November 1, 2014	November 2, 2013	Change %		November 1, 2014	November 2, 2013	Change %		
	<i>(in thousands, except store count)</i>				<i>(in thousands, except store count)</i>				
Net sales	\$72,456	\$79,772	\$(7,316)(9.2%)(1.8%)		\$231,580	\$254,473	\$(22,893)(9.0%)(1.5%)		
As a % of sales									
Video	45.1%	46.0%		(3.1%)	45.8%	45.7%			(0.5%)
Music	27.4%	29.9%		(10.1%)	28.5%	30.6%			(9.1%)
Trend	14.8%	11.7%		21.6%	12.7%	10.9%			12.6%
Electronics	8.8%	8.1%		5.3%	8.9%	8.8%			(1.4%)
Video Games	3.9%	4.3%		(9.7%)	4.1%	4.0%			4.7%
Store Count:					327	360	(33)	(9.2%)	
Total Square Footage					1,937	2,141	(204)	(9.5%)	

Net sales. Net sales decreased 9.2% and 9.0% during the thirteen and thirty-nine weeks ended November 1, 2014, respectively, as compared to the same periods last year. The decline in net sales for the thirteen week period resulted from a decrease in total store count of 9.2% and a 1.8% decrease in comparable net sales. The decline in net sales for the thirty-nine week period resulted from a decrease in total store count of 9.2% and a 1.5% decrease in comparable net sales.

Video:

Comparable store net sales in the video category decreased 3.1% and 0.5% during the thirteen and thirty-nine weeks ended November 1, 2014, respectively. Video sales were negatively impacted by weaker new releases resulting from a decline in box office sales. The video category represented 45.1% of total net sales for the thirteen weeks ended November 1, 2014 compared to 46.0% in the comparable quarter last year.

According to Warner Brothers Home Video, total physical video sales industries wide were down 12.5% during the period corresponding to the Company's third fiscal quarter.

Music:

Comparable store net sales in the music category decreased 10.1% and 9.1% during the thirteen weeks and thirty-nine weeks ended November 1, 2014, respectively. The music category represented 27.4% of total net sales for the thirteen weeks ended November 1, 2014 compared to 29.9% in the comparable quarter last year.

According to Soundscan, total physical CD unit sales industry-wide were down 12.4% during the period corresponding to the Company's third fiscal quarter.

Trend:

Comparable store net sales in the trend category increased 21.6% and 12.6% during the thirteen and thirty-nine weeks ended November 1, 2014, respectively. Trend product represented 14.8% of total net sales for the thirteen weeks ended November 1, 2014 compared to 11.7% in the comparable quarter last year.

Electronics:

Comparable store net sales in the electronics category increased 5.3% and decreased 1.4% during the thirteen and thirty-nine weeks ended November 1, 2014, respectively. Electronics net sales represented 8.8% of total net sales for the thirteen weeks ended November 1, 2014 compared to 8.1% in the comparable quarter last year.

Video Games:

Comparable store net sales for video games decreased 9.7% and increased 4.7% during the thirteen and thirty-nine weeks ended November 1, 2014, respectively. The comparable store net sales decrease in the thirteen week period as the Company was unable to offset the release of Grand Theft Auto in the comparable quarter last year. Currently, 127 stores, or 38.8% of the Company's stores carry games. Video games net sales represent 3.9% of total net sales for the thirteen weeks ended November 1, 2014, compared to 4.3% in the comparable quarter last year.

According to NPD Group, industry sales were up 2.7% during the period corresponding to the Company's third fiscal quarter.

Gross Profit. The following table sets forth a period over period comparison of the Company's gross profit:

Thirteen weeks ended (in thousands)	Change		Thirty-nine weeks ended (in thousands)	Change	
	\$	%		\$	%

	November 1, 2014		November 2, 2013		November 1, 2014		November 2, 2013	
Gross Profit	\$28,534		\$30,740		\$(2,306)(7.2%)		\$89,358	\$98,543 \$(9,185)(9.3%)
As a % of sales	39.4%		38.5%		38.6%		38.7%	

Gross profit dollars decreased 7.2% and 9.3% for the thirteen and thirty-nine weeks ended November 1, 2014, respectively as compared to the same periods last year. The decline in gross profit dollars is due to the decline in net sales. The decline in net sales was partially offset by an increase in gross profit as a percentage of net sales due to improved margin rates in a majority of our categories.

SG&A Expenses. The following table sets forth a period over period comparison of the Company's SG&A expenses:

	Thirteen weeks ended (in thousands)		Change		Thirty-nine weeks ended (in thousands)		Change	
	November 1, 2014	November 2, 2013	\$	%	November 1, 2014	November 2, 2013	\$	%
SG&A	\$32,520	\$33,552	\$(1,032)	(3.1%)	\$97,772	\$101,229	\$(3,457)	(3.4%)
As a % of sales	44.9%	42.1%			42.2%	39.8%		

For the thirteen weeks ended November 1, 2014, SG&A expenses decreased \$1.0 million, or 3.1% on the net sales decline of 9.2% resulting in a 280 basis point increase in SG&A expenses as a percentage of net sales. The decrease in SG&A expenses was driven by the reduction in store count, partially offset by \$800,000 in fees related to a legal settlement and expenses associated with the appointment of a new CEO.

For the thirty-nine weeks ended November 1, 2014, SG&A expenses decreased \$3.5 million, or 3.4% on the net sales decline of 9.0% resulting in a 240 basis point increase in SG&A expenses as a percentage of net sales. The decrease in SG&A expenses was driven by the reduction in store count, partially offset by \$1.7 million in expenses related to a legal settlement, a prior period adjustment to correct the liability for workers compensation and expenses associated with the appointment of a new CEO.

Interest Expense, Net. Net interest expense was \$0.5 million and \$1.4 million during the thirteen and thirty-nine weeks ended November 1, 2014, respectively, compared to \$0.5 million and \$1.5 million during the thirteen and thirty-nine weeks ended November 2, 2013. Net interest expense consists primarily of interest on capital leases, unused commitment fees and the amortization of fees related to the Company's credit facility.

Income Tax Expense (Benefit). 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 on 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. During fiscal 2011, based on available objective evidence, management concluded that a full valuation allowance should be recorded against the Company's deferred tax assets. Management continues to assess the need for and amount of the valuation allowance against the deferred tax assets by giving consideration to all available evidence to the Company's ability to generate future taxable income in its conclusion of the need for a full valuation allowance. Based on further assessment, management concluded there isn't sufficient evidence to support reversal of the valuation allowance at this time. Any reversal of the Company's valuation allowance will favorably impact its results of operations in the period of reversal. The Company is currently unable to determine whether or when that reversal might occur, but it will continue to assess the realizability of its deferred tax assets and will adjust the valuation allowance if it is more likely than not that all or a portion of the deferred tax assets will become realizable in the future. The Company has significant net operating loss carry forwards and other tax attributes that are available to offset projected taxable income and current taxes payable, if any, for the year ending January 31, 2015. The deferred tax impact resulting from the utilization of the net operating loss carry forwards and other tax attributes

will be offset by a reduction in the valuation allowance. As of February 1, 2014, the Company had a net operating loss carry forward of \$157.6 million for federal income tax purposes and approximately \$244 million for state income tax purposes that expire at various times through 2031 and are subject to certain limitations and statutory expiration periods.

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For the thirteen and thirty-nine week periods ended November 1, 2014 and November 2, 2013, the Company's current tax expense was associated with quarter-specific items attributable to interest accruals on related uncertain tax positions and state taxes based on modified gross receipts incurred for these thirteen and thirty-nine week periods.

Net loss. The following table sets forth a period over period comparison of the Company's net loss:

	Thirteen weeks ended November 1, 2014			Thirty-nine weeks ended November 1, 2014		
	2, 2013	Change		2, 2013	Change	
	(in thousands)			(in thousands)		
Loss before income tax	\$(4,455)	\$(3,293)	\$(1,162)	\$(9,843)	\$(4,137)	\$(5,706)
Income tax expense	21	22	(1)	115	119	(4)
Net loss	\$(4,476)	\$(3,315)	\$(1,161)	\$(9,958)	\$(4,256)	\$(5,702)

For the thirteen weeks ended November 1, 2014, the Company's net loss was \$4.5 million compared to a loss of \$3.3 million for the thirteen weeks ended November 2, 2013. The decrease was due to the decline in gross profit from lower net sales.

For the thirty-nine weeks ended November 1, 2014, the Company's net loss was \$10.0 million, compared to net loss of \$4.3 million for the thirty-nine weeks ended November 2, 2013. The decrease was due to the decline in gross profit from lower net sales.

LIQUIDITY

Liquidity and Cash Flows: The Company's primary sources of working capital are cash and cash equivalents on hand, cash provided by operations and borrowing capacity under its revolving credit facility (See Note 6 to the condensed consolidated financial statements for further details). The Company's cash flows fluctuate from quarter to quarter due to various items, including seasonality of net sales and earnings, merchandise inventory purchases and returns and the related terms on the purchases and capital expenditures. Management believes it will have adequate resources to fund its cash needs for the next twelve months and beyond, including its capital spending, its seasonal increase in merchandise inventory and other operating cash requirements and commitments.

Management anticipates that any future cash requirements due to a shortfall in cash from operations would be funded by the Company's cash and cash equivalents on hand and its revolving credit facility, discussed hereafter. At the present time, 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 summary of key components of cash flow and working capital for each of the thirty-nine weeks ended November 1, 2014 and November 2, 2013, or at those dates:

	Thirty-nine weeks ended		Change
	November 1, 2014	November 2, 2013	
<i>(in thousands)</i>			\$
Operating Cash Flows	\$(24,995)	\$(40,020)	\$ 15,025
Investing Cash Flows	(7,390)	(6,861)	(529)
Financing Cash Flows	(19,251)	(73)	(19,178)
Cash and Cash Equivalents	79,366	86,028	(6,662)
Merchandise Inventory	158,017	174,884	(16,867)
Working Capital	162,042	182,166	(20,124)

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The Company had cash and cash equivalents of \$79.4 million at November 1, 2014, compared to \$131.0 million at February 1, 2014 and \$86.0 million at November 2, 2013. Merchandise inventory was \$82 per square foot at November 1, 2014 the same level as of November 2, 2013.

Cash used by operating activities was \$25.0 million for the thirty-nine weeks ended November 1, 2014. The primary uses of cash were a net loss of \$10.0 million, a \$7.8 million seasonal increase of inventory and a reduction of \$8.3 million in accounts payable. The Company's merchandise inventory and accounts payable are influenced by the seasonality of its business.

Cash used by investing activities, which was constituted entirely of capital expenditures, was \$7.4 million for the thirty-nine weeks ended November 1, 2014.

Cash used by financing activities was \$19.3 million for the thirty-nine weeks ended November 1, 2014. The primary uses of cash were the purchases of common stock for \$2.5 million and a dividend payment of \$16.0 million in the first quarter of 2014.

During the thirty-nine weeks ending November 1, 2014, the Company repurchased 688,228 shares of common stock at an average price of \$3.60 per share. Since the inception of the program, the Company has repurchased 1,276,469 shares of common stock at an average price of \$3.98 per share. The Company has approximately \$17.0 million available for purchase under its repurchase program.

The Company classified the repurchased shares as treasury stock on the Company's balance sheet.

On March 6, 2014, our board of directors declared a special cash dividend of \$0.50 per common share, with an ex-dividend date of March 18, 2014. The total special dividend payout was \$16.0 million.

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. 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.

During the thirty-nine weeks ended November 1, 2014 and November 2, 2013, the Company did not have any borrowings under the Credit Facility. As of November 1, 2014 and November 2, 2013, the Company had no outstanding letter of credit obligations under the Credit Facility. The Company had \$65 million available for borrowing as of November 1, 2014 and November 2, 2013.

Capital Expenditures. During the thirty-nine weeks ended November 1, 2014, the Company made capital expenditures of \$7.4 million. The Company currently plans to spend approximately \$11.0 million for capital expenditures in fiscal 2014, including investments to upgrade the Company's POS system.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the reported amounts of assets and liabilities in the financial statements. Management continually evaluates its estimates and judgments including those related to merchandise inventory and return costs, 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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Form 10-K for the year ended February 1, 2014 includes a summary of the critical accounting policies and methods used by the Company in the preparation of its condensed consolidated financial statements. There have been no material changes or modifications to the policies since February 1, 2014.

Recently Issued Accounting Pronouncements:

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, ("ASU 2014-08"). This amendment changes the requirements for reporting discontinued operations and includes enhanced disclosures about discontinued operations. Under the amendment, only those disposals of components of an entity that

represent a strategic shift that has a major effect on an entity's operations and financial results will be reported as discontinued operations in the financial statements. ASU 2014-08 is effective prospectively for annual periods beginning on or after December 15, 2014, and interim reporting periods within those years. Early adoption is permitted. The Company expects to adopt ASU 2014-08 as of the beginning of 2015 and it does not anticipate the adoption of ASU 2014-08 to have a material impact on the Company's consolidated financial position, cash flows, or results of operations.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 28, 2017. Early application is not permitted. The standard permits the use of either the

retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In August 2014, the FASB issued ASU No. 2014-15, Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires the Company to assess their ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of Company's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The new standard is effective for reporting periods beginning after December 15, 2016. Early application is permitted. The Company does not expect the adoption of this update to have a significant effect on our financial statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

PART I – FINANCIAL INFORMATION

Item 3 - Quantitative and Qualitative Disclosures about Market Risk

To the extent the Company borrows under its 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. 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 as defined in the Credit Agreement, with the Applicable Margin for LIBO Rate loans ranging from 2.25% to 2.75% and the Applicable Margin for Base Rate loans ranging from 0.75% to 1.25%. If interest rates on the Company's 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. For a discussion of the Company's accounting policies for financial instruments and further disclosures relating to financial instruments, see "Nature of Operations and Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended February 1, 2014. The Company does not currently hold any derivative instruments.

Item 4 – Controls and Procedures

(a) Evaluation of disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of November 1, 2014, have concluded that as of such date the Company's disclosure controls and procedures were effective and designed to ensure that (i) information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls. There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 1 – Legal Proceedings

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 and in the aggregate, will not have a material adverse effect on the results of operations and financial condition of the Company.

Item 1A – Risk Factors

Risks relating to the Company's business and Common Stock are described in detail in Item 1A of the Company's most recently filed Annual Report on Form 10-K for the year ended February 1, 2014.

Item 2 – 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. Investments in the Common Stock during the third quarter of fiscal 2013 represented 2,568 shares of the Company's Common Stock with an aggregate purchase price equal to \$12,070. 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.

The failure to register the shares of Common Stock under the 401(k) Plan was inadvertent and the Company made a registered rescission offer to eligible plan participants during the third quarter of fiscal 2014. At the end of the rescission period, the Company paid less than \$1,000 to pay for losses incurred by plan participants.

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.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosure

Not Applicable.

Item 5 – Other Information

None.

22

Item 6 - Exhibits

(A) Exhibits -

Exhibit No.	Description
31.1	Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document (furnished herewith)
101.SCH	XBRL Taxonomy Extension Schema (furnished herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (furnished herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (furnished herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase (furnished herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (furnished herewith)
23	

SIGNATURES

Pursuant to the requirements of the Securities and 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

December 11, 2014 **By: /s/ Michael Feurer**
Michael Feurer
Chief Executive Officer
(Principal Executive Officer)

December 11, 2014 **By: /s/ John Anderson**
John Anderson
Chief Financial Officer
(Principal and Chief
Accounting Officer)