TRANS WORLD ENTERTAINMENT CORP
Form 10-K
April 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JANUARY 31, 2015

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	14-1541629
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

38 Corporate Circle

Albany, New York 12203

(Address of principal executive offices, including zip code)

(518) 452-1242

(Registrant's telephone number, including area code)

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

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

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

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

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 x No o

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

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

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

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

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

As of August 2, 2014, 31,678,388 shares of the Registrant's Common Stock were issued and outstanding. The aggregate market value of the voting stock held by non-affiliates of the Registrant, based upon the closing sale price of the Registrant's Common Stock on August 2, 2014 as reported on the National Market tier of The NASDAQ Stock Market, Inc. was $60,491,992. Shares of Common Stock held by the Company's controlling shareholder, who controlled approximately 45.5% of the outstanding Common Stock, have been excluded for purposes of this computation. Because of such shareholder's control, shares owned by other officers, directors and 5% shareholders have not been excluded from the computation. As of March 31, 2015, there were 31,159,488 shares of Common Stock issued and outstanding.

Documents of Which Portions Are Incorporated by Reference	Parts of the Form 10-K into Which Portion of Documents are Incorporated
Proxy Statement for Trans World Entertainment Corporation's July 1, 2015 Annual Meeting of Shareholders to be filed on or about May 29, 2015	III
Consolidated Financial Statements	II
Report of Independent Registered Public Accounting Firm on Effectiveness of Internal Control over Financial Reporting	II

PART I

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

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

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

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

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

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

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

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

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Item 1. BUSINESS

Company Background

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

Stores and Store Concepts

As of January 31, 2015, the Company operated 310 stores totaling approximately 1.8 million square feet in the United States, the District of Columbia and the U.S. Virgin Islands.

Mall Stores

As of January 31, 2015, the Company operated 270 mall-based stores, predominantly under the f.y.e. ("For Your Entertainment") brand, including:

f.y.e. stores. The Company operated 261 traditional mall-based stores. f.y.e. stores average about 5,300 square feet and carry a full complement of entertainment products, including video, music, trend, electronics, video games and related products.

Video only stores. The Company operated 9 video only stores, predominately under the Suncoast Motion Pictures brand. These stores specialize in the sale of video and related product. They average about 3,100 square feet.

Freestanding Stores

As of January 31, 2015, the Company operated 40 freestanding stores predominantly under the f.y.e. brand. They carry a full complement of entertainment products, including video, music, trend, electronics, video games and related products and are located in freestanding, strip center and downtown locations. The freestanding stores average approximately 9,800 square feet.

E-Commerce Sites

The Company operates three retail web sites including **www.fye.com, www.wherehouse.com** and **www.secondspin.com**. FYE.com is our flagship site and carries a full complement of entertainment products, including video, music, trend, electronics, video games and related products. SecondSpin.com is a leading seller of used CDs, DVDs, Blu-Ray, and video games online and carries one of the largest catalogs of used media available online. Wherehouse.com offers a broad selection of new and used CDs, DVDs, Blu-Ray, and video games.

Merchandise Categories

Net sales by merchandise category as a percentage of total net sales for Fiscal 2014, 2013 and 2012 were as follows:

	2014	2013	2012
Video	43.9 %	45.1 %	43.8 %
Music	27.0	28.8	30.9
Trend	15.2	12.3	10.1
Electronics	9.6	9.2	10.5
Video games	4.3	4.6	4.7
Total	100.0%	100.0%	100.0%

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

Business Environment

Based primarily on statistical information obtained from Warner Brothers Home Entertainment and Nielsen Sound Scan ("SoundScan"); physical video and music represent an approximately $10 billion industry nationwide in 2014. Video and music accounted for approximately 71% of the Company's net sales in Fiscal 2014 versus 74% of sales in Fiscal 2013.

According to statistics obtained from Warner Brothers Home Entertainment, overall video industry physical retail sales in 2014 were $6.7 billion compared to $7.5 billion in 2013, a decrease of 10.7%. Industry DVD retail sales decreased 10.9% in 2014 compared to 2013, while Blu-ray sales increased 10.0%.

According to statistical information from SoundScan, the total number of music albums sold, including CD and digital albums, decreased 10.3% to approximately 257 million units in 2014. Excluding digital albums, in Fiscal 2014, album sales decreased 14.1% from Fiscal 2013 to approximately 140 million units.

Competition

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

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

Seasonality

The Company’s business is seasonal, with its fourth fiscal quarter constituting the Company’s peak selling period. In Fiscal 2014, the fourth quarter accounted for approximately 35% of annual net sales. In anticipation of increased sales activity in the fourth quarter, the Company purchases additional inventory and hires seasonal associates to supplement its core store sales and distribution center staffs. If, for any reason, the Company’s net sales were below seasonal norms during the fourth quarter, the Company’s operating results could be adversely affected. Quarterly sales can also be affected by the timing of new product releases, new store openings or closings and the performance of existing stores.

Advertising

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

Suppliers and Purchasing

The Company purchases inventory from approximately 500 suppliers. In Fiscal 2014, 58% of purchases were made from ten suppliers including Twentieth Century Fox Video, Paramount Home Entertainment, RED Distribution, Sony Music Entertainment, Sony Pictures Home Entertainment, Universal Music Group Distribution, Universal Studios Home Entertainment, Buena Vista Home Entertainment, Warner Home Video and Warner, Elektra, Atlantic Corp Group. The Company does not have material long-term purchase contracts; rather, it purchases products from its suppliers on an order-by-order basis. Historically, the Company has not experienced difficulty in obtaining satisfactory sources of supply and management believes that it will continue to have access to adequate sources of supply.

Trade Customs and Practices

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

Employees

As of January 31, 2015, the Company employed approximately 3,000 people, of whom approximately 1,200 were employed on a full-time basis. Others were employed on a part-time basis. The Company hires seasonal sales and distribution center employees during its fourth quarter peak selling season to ensure continued levels of personalized customer service and in-stock position. Assistant store managers, store managers, district managers and regional managers are eligible to receive incentive compensation based on the sales and/or profitability of stores for which they are responsible. Sales support managers are generally eligible to receive incentive compensation based on achieving Company performance targets. None of the Company’s employees are covered by collective bargaining agreements and management believes that the Company enjoys favorable relations with its employees.

Trademarks

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

Information Systems

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

Available Information

The Company’s headquarters are located at 38 Corporate Circle, Albany, New York 12203, and its telephone number is (518) 452-1242. The Company’s corporate website address is www.twec.com. The Company makes available, free of charge, its Exchange Act Reports (Forms 10-K, 10-Q, 8-K and any amendments thereto) on its web site as soon as practical after the reports are filed with the Securities and Exchange Commission (“SEC”). The public may read and copy any materials the Company files with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. This information can be obtained from the site http://www.sec.gov. The Company’s Common Stock, $0.01 par value, is listed on the NASDAQ National Market under the trading symbol “TWMC”. The Company’s fiscal year end is the Saturday closest to January 31. The

Fiscal 2014 (“Fiscal 2014”) year ended on January 31, 2015; Fiscal 2013 (“Fiscal 2013”) year ended on February 1, 2014; and Fiscal 2012 (“Fiscal 2012”) year ended on February 2, 2013. Fiscal 2012 consisted of 53 weeks. All other periods presented were 52 weeks.

Item 1A. RISK FACTORS

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

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

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

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

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

If we cannot successfully diversify our product mix and implement our business strategy our growth and profitability could be adversely impacted. Our future results will depend, among other things, on our success in implementing our business strategy. There can be no assurance that we will be successful in implementing our business strategy or that the strategy will be successful in sustaining acceptable levels of sales growth and profitability.

The Company’s results of operations may suffer if the Company does not accurately predict consumer acceptance of new product, distribution technologies or adapt to a shift to multichannel experience.

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

In addition, multichannel retailing is rapidly evolving with the increasing use of computers, tablets, mobile phones and other devices to shop in stores and online and the increased use of social media as a means of interacting with our customers and enhancing their shopping experiences. If we are unable to adapt to the gowth of multichannel retailing and keep pace with the changing expectations of our customers and new developments by our competitors, customer experience could be negatively affected, resulting in a loss of customer confidence and satisfaction, and lost sales, which could adversely affect our reputation and results of operations.

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

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

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

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

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

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

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

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

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

A variety of factors has historically affected, and will continue to affect, our comparable stores sales results and profit margins. These factors include general regional and national economic conditions; competition; actions taken by our competitors; consumer trends and preferences; new product introductions and changes in our product mix; timing and effectiveness of promotional events and weather. The Company's comparable store sales may decline further than they did in Fiscal 2014. Also, they may vary from quarter to quarter as our business is highly seasonal in nature. Our highest sales and operating income historically occur during the fourth fiscal quarter, which is due in part to the holiday selling season. The fourth quarter generated approximately 35% of our net sales for Fiscal 2014. Any decrease in our fourth quarter sales, whether due to a slow holiday selling season, unseasonable weather conditions, economic conditions or otherwise, could have a material adverse effect on our business, financial condition and operating results for the entire fiscal year. There is no assurance that we will achieve positive levels of sales and earnings growth, and any decline in our future growth or performance could have a material adverse effect on our business and results of operations.

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

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

Company opened six new stores in Fiscal 2014. Likewise, the Company regularly renews leases at existing locations if those stores are profitable. Failure to renew these leases may impact the Company's earnings. See Item 2: Properties, for timing of lease expirations.

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

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

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

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

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

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

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

Breach of data security could harm our business and standing with our customers.

The protection of our customer, employee and business data is critical to us. Our business, like that of most retailers, involves the receipt, storage and transmission of customers' personal information, consumer preferences and payment card information, as well as confidential information about our employees, our suppliers and our Company. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of all such data, including confidential information. Despite the security measures we have in place, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, or other similar events. Unauthorized parties may attempt to gain access to our systems or information through fraud or other means, including deceiving our employees or third party service providers. The methods used to obtain unauthorized access, disable or degrade service, or sabotage systems are also constantly changing and evolving, and may be difficult to anticipate or detect. We have implemented and regularly review and update our control systems, processes and procedures to protect against unauthorized access to or use of secured data and to prevent data loss. However, the ever-evolving threats mean we must continually evaluate and adapt our systems and processes, and there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. Any security breach involving the misappropriation, loss or other unauthorized disclosure of customer payment card or personal information or employee personal or confidential information, whether by us or our vendors, could damage our reputation, expose us to risk of litigation and liability, disrupt our operations, harm our business and have an adverse impact upon our net sales and profitability. As the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and changing requirements applicable to our business, compliance with those requirements could also result in additional costs. Further, if we are unable to comply with the security standards established by banks and the credit card industry, we may be subject to fines, restrictions and expulsion from card acceptance programs, which could adversely affect our retail operations.

Our hardware and software systems are vulnerable to damage, theft or intrusion that could harm our business.

Our success, in particular our ability to successfully manage inventory levels and process customer transactions, largely depends upon the efficient operation of our computer hardware and software systems. We use management information systems to track inventory at the store level and aggregate daily sales information, communicate customer information and process purchasing card transactions, process shipments of goods and report financial information.

Any failure of our computer hardware or software systems that causes an interruption in our operations or a decrease in inventory tracking could result in reduced net sales and profitability. Additionally, if any data intrusion, security breach, misappropriation or theft were to occur, we could incur significant costs in responding to such event, including responding to any resulting claims, litigation or investigations, which could harm our operating results.

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

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

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

Our Chairman owns approximately 46.9% of the outstanding Common Stock. Therefore, he has significant influence and control over the outcome of any vote of the Company's Shareholders.

Robert J. Higgins, Chairman of the Board of the Company owns approximately 46.9% of the outstanding Common Stock of the Company, as of March 31, 2015 and there are no limitations on his acquiring shares in the future. Accordingly, Mr. Higgins has significant influence over the election of our directors, the appointment of new management and the approval of actions requiring shareholder approval, such as adopting amendments to our articles of incorporation and approving mergers or sales of all or substantially all of our assets. Such concentration of ownership and substantial voting influence may have the effect of delaying or preventing a change of control, even if a change of control is in the best interest of all shareholders. There may be instances in which the interest of Mr. Higgins may conflict or be perceived as being in conflict with the interest of a holder of our securities or the interest of the Company.

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

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

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

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

We operate a distribution center in Albany, New York. We ship approximately 76% of our merchandise inventory through our distribution center. If our distribution center is destroyed or disrupted for any reason, including weather, fire, labor, or other issues we could incur significantly higher costs and longer lead times associated with distributing our products to our stores during the time it takes to reopen or replace the center.

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

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

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

In addition, an active trading market for our Common Stock may not be sustained, which could affect the ability of our stockholders to sell their shares and could depress the market price of their shares. The stock market in general and the market for video and music industry related stocks in particular, has been highly volatile. For example, the closing price of our Common Stock at quarter ends has fluctuated between $3.36 and $4.00 from January 30, 2013 to March 31, 2015. Investors in our Common Stock may experience a decrease in the value of their stock, including decreases unrelated to our operating performance or prospects.

The declaration of dividend payments or the repurchase of our common stock pursuant to our share repurchase program may not continue.

Our dividend policy may be affected by, among other items, business conditions, changes in our business strategy, our views on potential future capital requirements, the terms of our debt instruments, legal risks, changes in federal income tax law and challenges to our business model. Our dividend policy may change from time to time and we may or may not continue to declare discretionary dividend payments. Additionally, although we have a share repurchase program authorized by our Board of Directors, we are not obligated to make any purchases under the program and we may discontinue it at any time.

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

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

Item 1B. UNRESOLVED SEC COMMENTS

None.

Item 2. PROPERTIES

Retail Stores

As of January 31, 2015, the Company operated 310 stores, of which 309 stores are under operating leases, some of which have renewal options. The Company owns 1 store. The majority of the leases provide for the payment of fixed monthly rent and expenses for maintenance, property taxes and insurance, while others provide for the payment of monthly rent based on a percentage of sales. Certain leases provide for additional rent based on store sales in excess of specified levels. The following table lists the leases due to expire in each of the years shown as of the fiscal year-end, assuming any renewal options are not exercised:

Year	**No. of Leases**	Year	**No. of Leases**
2015	175	2019	8
2016	60	2020	4
2017	24	2021 and beyond	15
2018	23		

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

Corporate Offices and Distribution Center Facility

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

The Company believes that its existing distribution facility is adequate to meet the Company's planned business needs. Shipments from the distribution facility to the Company's stores provide approximately 76% of all merchandise shipment requirements to stores. Stores are serviced by common carriers chosen on the basis of geography and rate considerations. The balance of the stores' merchandise requirements is satisfied through direct shipments from vendors.

Item 3. LEGAL PROCEEDINGS

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

Item 4. Mine Safety Disclosures

None.

PART II

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

Market Information:

The Company's Common Stock trades on the NASDAQ Stock Market under the symbol "TWMC." As of March 31, 2015, there were 348 shareholders of record. The following table sets forth high and low last reported sale prices for each fiscal quarter during the period from February 3, 2013 through March 31, 2015.

	Closing Sales Prices	
	High	Low
2013		
1st Quarter	$4.40	$3.36
2nd Quarter	$5.24	$4.27
3rd Quarter	$5.12	$4.26
4th Quarter	$4.57	$3.92
2014		
1st Quarter	$4.54	$3.63
2nd Quarter	$4.04	$3.16
3rd Quarter	$3.97	$3.27
4th Quarter	$3.47	$3.13
2015		
1st Quarter (through March 31, 2015)	$4.00	$3.42

On March 31, 2015, the last reported sale price on the Common Stock on the NASDAQ National Market was $3.70.

Dividend Policy:

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

Five-Year Performance Graph:

The following line graph reflects a comparison of the cumulative total return of the Company’s Common Stock from January 31, 2010 through January 30, 2015 with the NASDAQ US Benchmark TR Index and with ICB: 5300 Retail (Supersector) index. Because none of the Company’s leading competitors has been an independent publicly traded company over the period, the Company has elected to compare shareholder returns with the published index of retail companies compiled by NASDAQ. All values assume a $100 investment on January 31, 2010, and that all dividends were reinvested.

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	2010	2011	2012	2013	2014	2015
Trans World Entertainment Corporation	100	135	190	298	341	342
NASDAQ US Benchmark TR Index	100	124	128	150	184	207
ICB: 5300 Retail (Supersector)	100	119	133	165	201	248

Issuer Purchases of Equity Securities During the Quarter Ended January 31, 2015

The Board of Directors authorized a $22 million share repurchase program in August 2013. The timing of share repurchases under the repurchase program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

Below is a summary of share repurchase activity for the 3 months period ended January 31, 2015:

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
November 2- November 29, 2014	70,874	$ 3.30	70,874	$16,684,122
November 30- January 3, 2015	116,304	$ 3.30	116,304	$16,298,642
January 4- January 31, 2015	110,171	$ 3.36	110,171	$15,928,684
Total	297,349	$ 3.33	297,349	

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Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth selected Statements of Operations and Balance Sheet data for the five fiscal years ended January 31, 2015 and is derived from the Company's audited Consolidated Financial Statements. The fiscal year ended February 2, 2013 consisted of 53 weeks while all the other fiscal years of the Company presented consisted of 52 weeks. This information should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes and other financial information included herein, including Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	Fiscal Year Ended				
	January 31, 2015	February 1, 2014	February 2, 2013	January 28, 2012	January 29, 2011
	(in thousands, except per share data)				
STATEMENT OF OPERATIONS DATA:					
Net sales	$358,490	$393,659	$458,544	$542,589	$652,416
Cost of sales	222,572	245,755	286,422	344,435	433,036
Gross profit	135,918	147,904	172,122	198,154	219,380
Selling, general and administrative expenses	132,143	137,529	158,572	192,743	244,839
Gain on sale of asset	—	—	(22,750)	—	—
Asset impairment charges	—	—	—	—	1,973
Income (loss) from operations	3,775	10,375	36,300	5,411	(27,432)
Interest expense	1,951	2,010	2,384	3,429	3,557
Other income	(70)	(80)	(66)	(240)	(211)
Income (loss) before income taxes	1,894	8,445	33,982	2,222	(30,778)
Income tax expense (benefit)	116	168	248	150	275
Net income (loss)	$1,778	$8,277	$33,734	$2,072	$(31,053)
Basic earnings (loss) per share	$0.06	$0.25	$1.07	$0.07	$(0.99)
Weighted average number of shares outstanding - basic	31,744	32,584	31,577	31,520	31,417
Diluted earnings (loss) per share	$0.06	$0.25	$1.06	$0.06	$(0.99)
Weighted average number of shares – diluted	31,897	32,862	31,878	32,036	31,417
Cash dividend paid per share	$0.50	—	$0.47	—	—

	Fiscal Year Ended				
	January 31, 2015	February 1, 2014	February 2, 2013	January 28, 2012	January 29, 2011
	(in thousands, except store count data)				
BALANCE SHEET DATA (at the end of the period):					

Total assets	$280,009	$311,591	$314,414	$312,294	$348,724
Current portion of long-term debt and capital lease obligations	938	1,066	936	1,503	1,363
Long-term obligations	—	938	2,004	4,009	5,511
Shareholders' equity	$171,740	$190,970	$179,934	$161,020	$161,798
OPERATING DATA:					
Store count (open at end of period):					
Mall stores	270	293	304	324	376
Freestanding stores	40	46	54	66	84
Total stores	310	339	358	390	460
Comparable store sales decreases[1]	(1%)	(5%)	(1%)	(2%)	(4%)
Total square footage in operation (Year end)	1,799	2,030	2,209	2,562	3,149
Total square footage in operation (Average)	1,940	2,134	2,362	2,913	3,543

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

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

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations provide information that the Company's management believes necessary to achieve an understanding of its financial condition and results of operations. To the extent that such analysis contains statements which are not of a historical nature, such statements are forward-looking statements, which involve risks and uncertainties. These risks include, but are not limited to, changes in the competitive environment for the Company's merchandise, including the entry or exit of non-traditional retailers of the Company's merchandise to or from its markets; releases by the music, video, and video game industries of an increased or decreased number of "hit releases"; general economic factors in markets where the Company's merchandise is sold; and other factors discussed in the Company's filings with the Securities and Exchange Commission. The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with "Item 6: Selected Consolidated Financial Data" and the Consolidated Financial Statements and related notes included elsewhere in this report.

As of January 31, 2015, the Company operated 310 stores totaling approximately 1.8 million square feet in the United States, the District of Columbia and the U.S. Virgin Islands. In Fiscal 2014, the Company's net sales decreased as compared to Fiscal 2013 as a result of lower average store count and a 1% decrease in comparable store sales.

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

Improving Product Mix and Creating Value for our Customers

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

Store Portfolio Evaluation

During Fiscal 2014 and Fiscal 2013, the Company closed 40 and 25 stores, respectively. The Company's real estate strategy is to maintain our core group of profitable locations, while evaluating opportunities for new locations in new and existing malls. The Company opened 6 stores in Fiscal 2014 and 6 stores in Fiscal 2013. The Company also relocated 5 stores in existing malls in Fiscal 2014.

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

The Company believes that there is near-term opportunity for improving the productivity of existing stores. The environment in which our stores operate is intensely competitive and includes Internet-based retailers and mass merchants. We believe a specialty retailer that can differentiate itself by offering a distinctive assortment and customer experience, and that can operate efficiently, will be better positioned to maintain or grow market share. Therefore, we remain dedicated to enhancing our product mix through introducing additional product lines, improving the operational efficiency of our stores and offering our customers a rewarding shopping experience.

Expanding Customer Base

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

Key Performance Indicators

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

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

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

Selling, General and Administrative ("SG&A") Expenses: Included in SG&A expenses are payroll and related costs, occupancy charges, general operating and overhead expenses and depreciation charges (excluding those related to distribution operations, as discussed in Note 2 of Notes to the Consolidated Financial Statements in this report). SG&A expenses also include fixed assets write-offs associated with store closures, if any, and miscellaneous income and expense items, other than interest. The Company recorded miscellaneous income items for Fiscal 2014, 2013, and 2012 in the amount of $6.1 million, $6.1 million, and $6.0 million, respectively.

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

Fiscal Year Ended January 31, 2015 ("Fiscal 2014")

Compared to Fiscal Year Ended February 1, 2014 ("Fiscal 2013")

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

			2014 vs. 2013	
($ in thousands)	2014	2013	$	%

Net Sales	$358,490	$393,659	($ 35,169)	(8.9%)

The 8.9% net sales decline from the prior year is due to a 7.6% decline in average stores in operation and a 1.0% decline in comparable store net sales. Stores closed in Fiscal 2013 and Fiscal 2014 recorded sales of $72.1 million in Fiscal 2013. Total product units sold in Fiscal 2014 decreased 6.6% and the average retail price for units sold decreased 3.0%.

Net sales by merchandise category for Fiscal 2014 and Fiscal 2013 were as follows:

($ in thousands)	2014 Net Sales	% Total	2013 Net Sales	% Total	Total % Net Sales Change	Comparable Store % Net Sales Change
Video	$157,378	43.9 %	$177,540	45.1 %	(11.3 %)	(3.0 %)
Music	96,792	27.0	113,374	28.8	(14.7)	(7.8)
Trend	54,490	15.2	48,420	12.3	12.4	20.2
Electronics	34,415	9.6	36,217	9.2	(5.0)	2.2
Video games	15,415	4.3	18,108	4.6	(14.9)	(4.3)
Total	$358,490	100.0%	$393,659	100.0%	(8.9 %)	(1.0 %)

Video

The Company’s stores offer a wide range of new and used DVDs and Blu-rays in a majority of its stores. Total net sales for Fiscal 2014 in the video category decreased 11.3% due to the lower average store count, and a 3.0% decrease in comparable store sales. Video sales were negatively impacted by weaker new releases resulting from the decline in box office sales during the year.

According to Warner Home Video, total video sales in the United States declined 9.9% during the period corresponding with the Company's Fiscal 2014.

Music

The Company's stores offer a wide range of new and used CDs, music DVDs and vinyl across most music genres, including new releases from current artists as well as an extensive catalog of music from past periods and artists. Total net sales in the music category declined 7.8% on a comparable store sale basis in Fiscal 2014. The Company has offset declines in CD sales by adding vinyl to many of its stores.

According to SoundScan, total CD unit sales in the United States declined 14.1% during the period corresponding with the Company's Fiscal 2014.

Trend

The Company's stores offer a selection of trend products that relate to theatrical releases, music, and gaming. The trend category increased 20.2% on a comparable store sales basis. Trend represented 15.2% of the Company's total net sales in Fiscal 2014 versus 12.3% in Fiscal 2013. The Company continues to take advantage of opportunities to strengthen its selection and shift product mix to growing categories of entertainment-related merchandise.

Electronics

The Company's stores offer a selection of complementary portable electronics and accessories to support our entertainment products. Total net sales in the electronics category increased 2.2% on a comparable store sales basis. Electronics represented 9.6% of the Company's total net sales in Fiscal 2014 versus 9.2% in Fiscal 2013.

Video games

During Fiscal 2014, the Company offered video games in approximately 120 stores. Comparable net sales in the games category decreased 4.3%.

According to NPD, industry-wide video games sales were up 2.3% during the period corresponding with the Company's Fiscal 2014.

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

($ in thousands)			2014 vs. 2013	
	2014	2013	$	%
Gross Profit	$135,918	$147,904	($ 11,986)	(8.1%)
As a percentage of net sales	37.9 %	37.6 %		

The decline in gross profit was due to lower sales.

Selling, General and Administrative Expenses.

The following table sets forth a year-over-year comparison of the Company's SG&A expenses:

($ in thousands)			2014 vs. 2013	
	2014	2013	$	%
Selling, general and administrative expenses	$132,143	$137,529	($ 5,386)	(3.9%)
As a percentage of net sales	36.9 %	34.9 %		

The $5.4 million decrease in SG&A expenses is due to a $9 million reduction in store expenses arising from the Company operating an average of 7.1% fewer stores and lower operating expenses in the ongoing stores. SG&A as a percentage of net sales increased 200 basis points from 34.9% in 2013 to 36.9% in 2014 primarily due to expenses associated with the appointment of a new CEO, a legal settlement, higher workers' compensation and higher per-square-foot occupancy costs.

Interest Expense. Interest expense in Fiscal 2014 was $2.0 million, the same level as Fiscal 2013.

Other Income. Other income, which includes interest income, was $70,000 in Fiscal 2014 compared to $80,000 in Fiscal 2013.

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

($ in thousands)	2014	2013	2014 vs. 2013 $
Income tax expense	$116	$168	($ 52)
Effective tax rate	6.1 %	2.0 %	

The Fiscal 2014 and 2013 income tax expense includes state taxes, adjustments to the reserve for uncertain tax positions and the accrual of interest. See Note 5 in the Notes to Consolidated Financial Statements for further detail.

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

($ in thousands)	2014	2013	2014 vs. 2013 $
Net income	$1,778	$8,277	($ 6,499)
Net income as a percentage of net sales	0.5 %	2.1 %	

Net income for Fiscal 2014 decreased by $6.5 million to $1.8 million, as compared to $8.3 million for Fiscal 2013 primarily due to lower sales partially offset by a higher gross margin rate and a decrease in SG&A expenses.

Fiscal Year Ended February 1, 2014 (“Fiscal 2013”)

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

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

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

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

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

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

Video

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

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

Music

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

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

Trend

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

Electronics

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

Video games

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

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

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

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

The decline in gross profit was due to lower sales.

Selling, General and Administrative Expenses.

The following table sets forth a year-over-year comparison of the Company's SG&A expenses:

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

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

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

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

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

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

($ in thousands)			2013 vs. 2012
	2013	2012	$
Income tax expense	$168	$248	($ 80)
Effective tax rate	2.0 %	0.7 %	

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

Management anticipates any cash requirements due to a shortfall in cash from operations will be funded by the Company's revolving credit facility, discussed hereafter. Cash flows from investing activities are expected to be comprised primarily of capital expenditures during Fiscal 2015. Cash flows from financing activities are expected to be comprised primarily of payments on capital leases and purchases of company shares under the share repurchase plan. The Company does not expect any material changes in the mix (between equity and debt) or the relative cost of capital resources.

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

($ in thousands)	2014	2013	2014 vs. 2013	2012	2013 vs. 2012
Operating Cash Flows	$16,808	$7,308	$9,500	$35,633	$(28,325)
Investing Cash Flows	(8,774)	(7,828)	(946)	25,706	(33,534)
Financing Cash Flows	(20,499)	(1,460)	(19,039)	(16,872)	15,412
Capital Expenditures	(8,754)	(7,828)	(926)	(3,351)	(4,477)
End of Period Balances:					
Cash and Cash Equivalents	118,537	131,002	(12,465)	132,982	(1,980)
Merchandise Inventory	126,377	150,167	(23,790)	155,429	(5,262)
Merchandise Inventory Per Square Foot	70.3	74.0		70.4	
Working Capital	173,444	194,311	(20,894)	189,149	5,162
Inventory turns	1.5	1.6		1.6	

During Fiscal 2014, cash flow from operations was $16.8 million primarily due to a reduction of inventory of $23.8 million and income from operations of $3.8 million partially offset by a $14.1 million reduction in accounts payable. During Fiscal 2013, cash flow from operations was $7.3 million primarily due to net income of $8.3 million.

The Company monitors various statistics to measure its management of inventory, including inventory turnover (annual cost of sales divided by average merchandise inventory balances), inventory investment per square foot (merchandise inventory divided by total store square footage) and inventory leverage (accounts payable divided by merchandise inventory). Inventory turnover measures the Company's ability to sell merchandise and how many times it is replaced in a year. This ratio is important in determining the need for markdowns and planning future inventory levels and assessing customer response to our merchandise. Inventory turnover in Fiscal 2014 was 1.5 as compared to 1.6 at the end of Fiscal 2013. Inventory investment per square foot measures the productivity of the inventory. It is important in determining if the Company has the appropriate level of inventory to meet customer demands while controlling its investment in inventory. Inventory investment per square foot was $70.3 per square foot at the end of Fiscal 2014 as compared to $74.0 per square foot at the end of Fiscal 2013. Accounts payable leverage measures the percentage of inventory being funded by the Company's product vendors. The percentage is important in determining the Company's ability to fund its business. Accounts payable leverage on inventory was 50.3% as of January 31, 2015 compared with 51.7% as of February 1, 2014.

Cash used by investing activities was $8.8 million in Fiscal 2014, compared to cash flows used by investing activities of $7.8 million in Fiscal 2013. During Fiscal 2014 and Fiscal 2013, cash used by investing activities consisted entirely of capital expenditures. The Company's capital expenditures consisted primarily of the expenditures for store improvements and investments in information technology.

The Company has historically financed its capital expenditures through borrowings under its credit facility, select financing arrangements and cash flow from operations. The Company anticipates capital spending of approximately $15 million in Fiscal 2015 as the Company invests in strategic initiatives.

Cash used in financing activities was $20.5 million in Fiscal 2014, compared to $1.5 million in Fiscal 2013. In Fiscal 2014, the primary uses of cash were payment of a special dividend of $16.0 million and stock repurchases of $3.5 million. In Fiscal 2013, the primary uses of cash were stock repurchases of $5.4 million and payments of capital lease obligations of $0.9 million, offset by proceeds from the exercise of long term equity awards of $4.9 million.

In 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.

As of January 31, 2015 and February 1, 2014, the Company did not have any borrowings under the Credit Facility. During Fiscal 2014 and Fiscal 2013, the Company did not have any borrowings under the Credit Facility. As of January 31, 2015 and February 1, 2014, the Company had no outstanding letter of credit. The Company had $41 million and $53 million available for borrowing as of January 31, 2015 and February 1, 2014, respectively.

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

Contractual Obligations and Commitments. The following table summarizes the Company's contractual obligations as of January 31, 2015, and the effect that such obligations are expected to have on liquidity and cash flows in future periods.

Contractual Obligation	2015	2016-2017	2018 - 2019	2020 and Beyond	Total
$ in thousands					
Operating lease and maintenance agreement obligations	$23,196	23,090	10,395	7,070	63,751
Capital lease obligations	1,779	—	—	—	1,779
Other long-term liabilities [(1)]	1,680	740	276	156	2,852
Pension benefits [(2)]	207	2,147	2,402	5,869	10,625
Total	$26,862	25,977	13,073	13,095	79,007

(1) Included in other long-term liabilities in the Consolidated Balance Sheet as of January 31, 2015 is the long-term portion of deferred rent of $0.7 million which are not reflected in the table above as these amounts do not represent contractual obligations. Also included in other long-term liabilities is the long-term portion of the straight line rent liability of $0.9 million, which is included in operating lease obligations in the table above.

Other long-term liabilities in the table above are the estimated asset retirement obligations associated with the fixed assets and leasehold improvements at the Company's store locations that arise under the terms of operating leases.

(2) In addition to the scheduled pension benefit payments, the Company offers a 401(k) Savings Plan to eligible employees (see also Note 7 of Notes to Consolidated Financial Statements in this report). Total expense related to the Company's matching contribution was approximately $437,000, $331,000 and $0 in Fiscal 2014, Fiscal 2013 and Fiscal 2012 respectively. The Company postponed its matching contribution effective March 1, 2011. The Company reinstated its matching contribution effective May 1, 2013.

Related Party Transactions.

The Company leases its 181,300 square foot distribution center/office facility in Albany, New York from Robert J. Higgins, its Chairman and largest shareholder, under three capital leases that expire in December 2015. The original distribution center/office facility was occupied in 1985. The Company is currently negotiating a new lease for its facility.

Under the three capital leases, dated April 1, 1985, November 1, 1989 and September 1, 1998, the Company paid Mr. Higgins an annual rent of $2.3 million, $2.3 million and $2.3 million in Fiscal 2014, Fiscal 2013 and Fiscal 2012 respectively. Pursuant to the terms of the lease agreements, effective January 1, 2002 and every two years thereafter, rental payments will increase in accordance with the biennial increase in the Consumer Price Index. Under the terms of the lease agreements, the Company is responsible for property taxes, insurance and other operating costs with respect to the premises. Mr. Higgins does not have any future obligation for principal and interest. None of the leases contain any real property purchase options at the expiration of its term.

The Company leases one of its retail stores from Mr. Higgins under an operating lease. Annual rental payments under this lease were $40,000 in Fiscal 2014, Fiscal 2013 and Fiscal 2012. Under the terms of the lease, the Company pays property taxes, maintenance and a contingent rent if a specified sales level is achieved. No contingent rent was paid in Fiscal 2014, Fiscal 2013, and Fiscal 2012. Total additional charges for the store were approximately $2,400, $3,800 and $6,400 in Fiscal 2014, Fiscal 2013 and Fiscal 2012 respectively. The lease expired and was not renewed as of January 31, 2015.

CRITICAL ACCOUNTING POLICIES

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

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

Inventory valuation requires significant judgment and estimates, including obsolescence, shrink and any adjustments to market value; if market value is lower than cost. Inherent in the entertainment products industry is the risk of obsolete inventory. Typically, newer releases generate a higher product demand. Some vendors offer credits to reduce the cost of products that are selling more slowly, thus allowing for a reduction in the selling price and reducing the possibility for items to become obsolete. The Company records obsolescence and any adjustments to market value (if lower than cost) based on current and anticipated demand, customer preferences, and market conditions. The provision for inventory shrink is estimated as a percentage of sales for the period from the last date a physical inventory was performed to the end of the fiscal year. Such estimates are based on historical results and trends and the shrink results from the last physical inventory. Physical inventories are taken at least annually for all stores and the distribution center throughout the year and inventory records are adjusted accordingly.

Shrink expense, including obsolescence was $5.0 million, $5.2 million and $6.6 million, in Fiscal 2014, Fiscal 2013 and Fiscal 2012 respectively. As a rate to net sales, this equaled 1.4%, 1.3% and 1.4%, respectively. Presently, a 0.1% change in the rate of shrink provision would equal approximately $0.2 million in additional charge or benefit to cost of sales, based on Fiscal 2014 net sales since the last physical inventories.

The Company is generally entitled to return merchandise purchased from major vendors for credit against other purchases from these vendors. Certain vendors reduce the credit with a per unit merchandise return charge which varies depending on the type of merchandise being returned. Certain other vendors charge a handling fee based on units returned. The Company records merchandise return charges in cost of sales. The Company incurred merchandise return charges in its Fiscal 2014, Fiscal 2013 and Fiscal 2012 of $0.7 million, $0.9 million and $1.4 million, respectively.

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

Accounting for income taxes requires management to make estimates and judgments regarding interpretation of various taxing jurisdictions, laws and regulations as well as the ultimate realization of deferred tax assets. These estimates and judgments include the generation of future taxable income, viable tax planning strategies and support of tax filings. In assessing the value of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. Based on the available objective evidence, management concluded that a full valuation allowance should be recorded against its net deferred tax assets as of January 31, 2015. During Fiscal 2015 and in future years, the Company will continue to record a valuation allowance against recorded net deferred tax assets at a level deemed appropriate by management.

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

Recently Issued Accounting Pronouncements.

In 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.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

The quarterly results of operations are included herein in Note 10 of Notes to the Consolidated Financial Statements in this report.

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

None.

Item 9A. CONTROLS AND PROCEDURES

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

Management’s Report on Internal Control Over Financial Reporting: Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d – 15(f) under the Exchange Act, as amended). Under the supervision and with the participation of the Company’s management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in *Internal Control-Integrated Framework (1992)*. Based on our evaluation under the framework in *Internal Control- Integrated Framework (1992)*, our management concluded that our internal control over financial reporting was effective as of January 31, 2015.

The Company's independent registered public accounting firm, KPMG LLP, has issued an audit report on the Company's effectiveness of internal control over financial reporting as of January 31, 2015, which is included on page F-3 in Item 8 of this report and incorporated herein by reference.

Changes in Controls and Procedures: No change in our internal control over financial reporting occurred during the quarterly period ended January 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

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

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

Code of Ethics

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

Item 11. EXECUTIVE COMPENSATION

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

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

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

Information on Trans World Entertainment Common Stock authorized for issuance under equity compensation plans is contained in our Proxy Statement for our 2013 Annual Meeting of Shareholders under the caption “Report of the Compensation Committee” and is incorporated herein by reference. See Note 7 of Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K for a description of the Company’s employee stock award plans.

The following table contains information about the Company's Common Stock that may be issued, as new shares, upon the exercise of options, warrants and rights under all of the Company's equity compensation plans as of January 31, 2015:

Plan Category	**Number of Shares to be Issued upon Exercise of Outstanding Options, Warrants and Rights(1)**	**Weighted Average Exercise Price of Outstanding Options, Warrants and Rights(1)**	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Outstanding Options, Warrants and Rights)
Equity Compensation Plan Approved by Shareholders	2,709,250	$6.81	2,500,000
Equity Compensation Plans and Agreements not Approved by Shareholders	—	—	—

(1) Includes 237,400 deferred shares under which shares may be issued for no consideration.

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

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

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

15(a) (1) Financial Statements

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

15(a) (2) Financial Statement Schedules

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

15(a) (3) Exhibits

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

SIGNATURES

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

	TRANS WORLD ENTERTAINMENT CORPORATION
Date: April 16, 2015	By: /s/ Michael Feurer Michael Feurer Chief Executive Officer

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

Name	**Title**	**Date**
/s/ Michael Feurer (Michael Feurer)	Chief Executive Officer (Principal Executive Officer)	April 16, 2015
/s/ John Anderson (John Anderson)	Chief Financial Officer (Principal Financial and Chief Accounting Officer)	April 16, 2015
/s/ Robert J. Higgins (Robert J. Higgins)	Chairman of the Board	April 16, 2015
/s/ Martin Hanaka (Martin Hanaka)	Director	April 16, 2015
/s/ Dr. Joseph Morone (Dr. Joseph G. Morone)	Director	April 16, 2015
/s/ Robert Marks (Robert Marks)	Director	April 16, 2015
/s/ Michael Nahl (Michael Nahl)	Director	April 16, 2015
/s/ Michael B. Solow (Michael B. Solow)	Director	April 16, 2015

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TRANS WORLD ENTERTAINMENT CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Trans World Entertainment Corporation:

We have audited the accompanying consolidated balance sheets of Trans World Entertainment Corporation and subsidiaries (the "Company") as of January 31, 2015 and February 1, 2014, and the related consolidated statements of income, comprehensive income (loss), shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended January 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Trans World Entertainment Corporation and subsidiaries as of January 31, 2015 and February 1, 2014, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended January 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 31, 2015, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 16, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Albany, New York

April 16, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Trans World Entertainment Corporation:

We have audited Trans World Entertainment Corporation's (the Company) internal control over financial reporting as of January 31, 2015, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Trans World Entertainment Corporation maintained, in all material respects, effective internal control over financial reporting as of January 31, 2015, based on criteria established in Internal Control—Integrated Framework

(1992) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Trans World Entertainment Corporation and subsidiaries as of January 31, 2015 and February 1, 2014, and the related consolidated statements of income, comprehensive income (loss), shareholders’ equity, and cash flows for each of the fiscal years in the three-year period ended January 31, 2015, and our report dated April 16, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Albany, New York

April 16, 2015

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TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	January 31, 2015	February 1, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$118,537	$131,002
Accounts receivable	3,545	2,684
Merchandise inventory	126,377	150,167
Prepaid expenses and other	6,699	7,114
Total current assets	255,158	290,967
FIXED ASSETS, net	15,769	11,593
OTHER ASSETS	9,082	9,031
TOTAL ASSETS	$280,009	$311,591
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$63,527	$77,625
Accrued expenses and other current liabilities	7,397	7,873
Deferred revenue	9,852	10,092
Current portion of capital lease obligations	938	1,066
Total current liabilities	81,714	96,656
CAPITAL LEASE OBLIGATIONS, less current portion	—	938
OTHER LONG-TERM LIABILITIES	26,555	23,027
TOTAL LIABILITIES	108,269	120,621
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; 58,337,668 shares and 58,298,668 shares issued, respectively)	583	583
Additional paid-in capital	315,486	314,932
Treasury stock at cost (27,094,423 and 26,108,846 shares, respectively)	(226,412)	(222,948)
Accumulated other comprehensive loss	(2,181)	(119)
Retained earnings	84,264	98,522
TOTAL SHAREHOLDERS’ EQUITY	171,740	190,970
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$280,009	$311,591

See Accompanying Notes to Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Fiscal Year Ended January 31, 2015	February 1, 2014	February 2, 2013
Net sales	$358,490	$393,659	$458,544
Cost of sales	222,572	245,755	286,422
Gross profit	135,918	147,904	172,122
Selling, general and administrative expenses	132,143	137,529	158,572
Gain on sale of asset	—	—	(22,750)
Income from operations	3,775	10,375	36,300
Interest expense	1,951	2,010	2,384
Other income	(70)	(80)	(66)
Income before income taxes	1,894	8,445	33,982
Income tax expense	116	168	248
NET INCOME	$1,778	$8,277	$33,734
BASIC AND DILUTED INCOME PER SHARE:			
Basic income per share	$0.06	$0.25	$1.07
Weighted average number of common shares outstanding – basic	31,744	32,584	31,577
Diluted income per share	$0.06	$0.25	$1.06
Weighted average number of common shares outstanding – diluted	31,897	32,862	31,878
Cash dividend paid per share	$0.50	—	$0.47

See Accompanying Notes to Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(amounts in thousands)

	Fiscal Year Ended		
	January 31, 2015	February 1, 2014	February 2, 2013
Net income	$ 1,778	$ 8,277	$ 33,734
Pension (loss) income adjustment	(2,062)	2,655	(617)
Comprehensive (loss) income	($284)	$ 10,932	$ 33,117

See Accompanying Notes to Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(amounts in thousands)

	Common Shares	Common Stock	Additional Paid-in Capital	Treasury Shares	Treasury Stock At Cost	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Shareholders' Equity
Balance as of January 28, 2012	56,557	$ 566	$ 308,791	(25,103)	($ 217,555)	($ 2,157)	$ 71,375	$ 161,020
Net income	—	—	—	—	—	—	33,734	33,734
Pension loss adjustment	—	—	—	—	—	(617)	—	(617)
Stock compensation	—	—	97	—	—	—	—	97
Exercise of equity grants	171	1	563	—	—	—	—	564
Cash dividends paid	—	—	—	—	—	—	(14,864)	(14,864)
Balance as of February 2, 2013	56,728	$ 567	$ 309,451	(25,103)	($ 217,555)	($ 2,774)	$ 90,245	$ 179,934
Net Income	—	—	—	—	—	—	8,277	8,277
Pension income adjustment	—	—	—	—	—	2,655	—	2,655
Stock compensation	—	—	255	—	—	—	—	255
Exercise of equity grants	1,477	15	4,854	—	—	—	—	4,869
Purchase of treasury stock	—	—	—	(1,006)	(5,393)	—	—	(5,393)
Issuance of stock to Directors	94	1	372	—	—	—	—	373
Balance as of February 1, 2014	58,299	$ 583	$ 314,932	(26,109)	($ 222,948)	($ 119)	$ 98,522	$ 190,970
Net Income	—	—	—	—	—	—	1,778	1,778
Pension income adjustment	—	—	—	—	—	(2,062)	—	(2,062)
Stock compensation	—	—	429	—	—	—	—	429
Exercise of equity grants	39	—	67	—	—	—	—	67
Purchase of treasury stock	—	—	—	(985)	(3,464)	—	—	(3,464)
Cash Dividends Paid	—	—	—	—	—	—	(16,036)	(16,036)
Amortization of unearned compensation – restricted stock	—	—	58	—	—	—	—	58
Balance as of January 31, 2015	58,338	$ 583	$ 315,486	(27,094)	($ 226,412)	($ 2,181)	$ 84,264	$ 171,740

See Accompanying Notes to Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)

	Fiscal Year Ended January 31, 2015	February 1, 2014	February 2, 2013
OPERATING ACTIVITIES:			
Net income	$1,778	$8,277	$33,734
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation of fixed assets	4,388	4,304	4,437
Amortization of lease valuations, net	136	138	138
Long term incentive compensation	487	255	97
Loss on disposal of fixed assets	210	162	151
Gain on sale of asset	—	—	(22,750)
Increase in cash surrender value	(488)	(1,081)	(668)
Changes in operating assets and liabilities:			
Accounts receivable	(861)	(53)	2,658
Merchandise inventory	23,790	5,262	35,898
Prepaid expenses and other	415	(380)	(3,632)
Other assets	301	319	137
Accounts payable	(14,098)	(1,439)	(13,703)
Accrued expenses, deferred revenue and other current liabilities	(716)	(10,288)	(991)
Other long-term liabilities	1,466	1,832	127
Net cash provided by operating activities	16,808	7,308	35,633
INVESTING ACTIVITIES:			
Purchases of fixed assets	(8,774)	(7,828)	(3,351)
Proceeds from sale of asset	—	—	29,057
Net cash (used in) provided by investing activities	(8,774)	(7,828)	25,706
FINANCING ACTIVITIES:			
Cash dividends paid	(16,036)	—	(14,864)
Exercise of long term equity awards	67	4,869	564
Payments of long-term debt	—	—	(1,748)
Payments of capital lease obligations	(1,066)	(936)	(824)
Purchase of treasury stock	(3,464)	(5,393)	—
Net cash used in financing activities	(20,499)	(1,460)	(16,872)
Net (decrease) increase in cash and cash equivalents	(12,465)	(1,980)	44,467
Cash and cash equivalents, beginning of year	131,002	132,982	88,515
Cash and cash equivalents, end of year	$118,537	$131,002	$132,982
Supplemental disclosures and non-cash investing and financing activities:			
Interest paid	$1,953	$2,015	$2,408
Issuance of deferred / restricted shares under deferred / restricted stock plans	58	373	—

See Accompanying Notes to Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nature of Operations: Trans World Entertainment Corporation and subsidiaries ("the Company") is one of the largest specialty retailers of entertainment products, including video, music, trend, electronics, video games and related products in the United States. The Company operates a chain of retail entertainment stores and e-commerce sites, **www.fye.com, www.wherehouse.com and www.secondspin.com** in a single industry segment. As of January 31, 2015, the Company operated 310 stores totaling approximately 1.8 million square feet in the United States, the District of Columbia and the U.S. Virgin Islands. The Company's business is seasonal in nature, with the peak selling period being the holiday season which falls in the Company's fourth fiscal quarter.

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

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

Basis of Presentation: The consolidated financial statements consist of Trans World Entertainment Corporation, its wholly-owned subsidiary, Record Town, Inc. ("Record Town"), and Record Town's subsidiaries, all of which are wholly-owned. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, including those related to merchandise inventory and return costs, valuation of long-lived assets, income taxes, and accounting for gift card liability, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. We have reclassified certain prior-year amounts to conform to the current-year's presentation.

Items Affecting Comparability: The Company's fiscal year is a 52 or 53-week period ending the Saturday nearest to January 31. Fiscal 2014, 2013, and 2012 ended January 31, 2015, February 1, 2014, and February 2, 2013, respectively. Fiscal 2014 and Fiscal 2013 had 52 weeks and Fiscal 2012 had 53 weeks. The 53rd week in Fiscal 2012 contributed less than 2% to net sales.

Concentration of Business Risks: The Company purchases inventory from approximately 500 suppliers. In Fiscal 2014, 58% of purchases were made from ten suppliers including Twentieth Century Fox Video, Paramount Home Entertainment, RED Distribution, Sony Music Entertainment, Sony Pictures Home Entertainment, Universal Music Group Distribution, Universal Studios Home Entertainment, Buena Vista Home Entertainment, Warner Home Video and Warner, Elektra, Atlantic Corp Group. The Company does not have material long-term purchase contracts; rather, it purchases products from its suppliers on an order-by-order basis. Historically, the Company has not experienced difficulty in obtaining satisfactory sources of supply and management believes that it will continue to have access to adequate sources of supply.

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

Concentration of Credit Risks: The Company maintains centralized cash management and investment programs whereby excess cash balances are invested in short-term money market funds. The Company's investments consist of short-term investment grade securities consistent with its investment guidelines. These guidelines include the provision that sufficient liquidity will be maintained to meet anticipated cash flow needs. The Company maintains these investments, all of which are classified as cash equivalents due to their short term nature, with various financial institutions. These amounts often exceed the FDIC insurance limits. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash investments.

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

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

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

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

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

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

Impairment of Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset over its remaining useful life. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value is generally measured based on discounted estimated future cash flows. Assets to be disposed of would be separately presented in the Consolidated Balance Sheets and reported at the lower of the carrying amount or fair value less disposition costs. For the purpose of the asset impairment test, the Company has two asset groupings – corporate and store level assets.

The Company did not recognize an impairment expense during Fiscal 2014, 2013 and 2012. Losses for store closings in the ordinary course of business represent the write down of the net book value of abandoned fixtures and leasehold improvements. The loss on disposal of fixed assets related to store closings was $0.2 million, $0.2 million and $0.2 million in Fiscal 2014, 2013 and 2012, respectively, and is included in selling, general and administrative (“SG&A”) expenses in the Consolidated Statements of Income and loss on disposal of fixed assets in the Consolidated Statements of Cash Flows. Store closings usually occur at the expiration of the lease, at which time leasehold improvements, which constitute a majority of the abandoned assets, are fully depreciated.

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

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

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

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

Selling, General and Administrative ("SG&A") Expenses: Included in SG&A expenses are payroll and related costs, store operating costs, occupancy charges, professional and service fees, general operating and overhead expenses and depreciation charges (excluding those related to distribution operations, as discussed in Note 2 of Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K). Selling, general and administrative expenses also include fixed asset write offs associated with store closures, if any, and miscellaneous income and expense items, other than interest. The Company recorded miscellaneous income items for Fiscal 2014, 2013, and 2012 in the amount of $6.1 million, $6.1 million, and $6.0 million, respectively.

Advertising Costs and Vendor Allowances: The Company often receives allowances from its vendors to fund in-store displays, print and radio advertising, and other promotional events. Vendor advertising allowances which exceed specific, incremental and identifiable costs incurred in relation to the advertising and promotions offered by the Company to its vendors are classified as a reduction in the purchase price of merchandise inventory. Accordingly, advertising and sales promotion costs are charged to operations, offset by direct vendor reimbursements, as incurred. Total advertising expense, excluding vendor allowances, was $3.4 million, $4.2 million, and $4.1 million in Fiscal 2014, 2013, and 2012, respectively. In the aggregate, vendor allowances supporting the Company's advertising and promotion included as a reduction of SG&A expenses, as reimbursements of such costs were $3.4 million, $4.2 million, and $4.0 million in Fiscal 2014, 2013, and 2012, respectively.

Lease Accounting: The Company's calculation of straight-line rent expense includes the impact of escalating rents for periods in which it is reasonably assured of exercising lease options and includes in the lease term any period during which the Company is not obligated to pay rent while the store is being constructed ("rent holiday"). The Company accounts for step rent provisions, escalation clauses and other lease concessions by recognizing these amounts on a straight line basis over the initial lease term. The Company capitalizes leasehold improvements funded by tenant improvement allowances, depreciating them over the term of the related leases. The tenant improvement allowances are recorded as deferred rent within other long-term liabilities in the Consolidated Balance Sheet and are amortized as a reduction in rent expense over the life of the related leases.

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

Gift Cards: The Company offers gift cards for sale. A deferred income account, which is included in deferred revenue in the Consolidated Balance Sheets, is established for gift cards issued. The deferred income balance related to gift cards was $3.3 million, $3.8 million and $4.5 million at the end of Fiscal 2014, 2013 and 2012, respectively. When gift cards are redeemed at the store level, revenue is recorded and the related liability is reduced. Breakage is estimated based on the historical relationship of the redemption of gift cards redeemed to gift cards sold, over a certain period of time. The Company has the ability to reasonably and reliably estimate gift card liability based on historical experience with redemption rates associated with a large volume of homogeneous transactions, from a period of more than ten years. The Company's estimate is not susceptible to significant external factors and the circumstances around purchases and redemptions have not changed significantly over time. The Company recorded breakage on its gift cards for Fiscal 2014, 2013 and 2012 in the amount of $0.7 million, $0.7 million and $1.0 million, respectively. Gift card breakage is recorded as a reduction of SG&A expenses.

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

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

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

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

Income Per Share: Basic income per share is calculated by dividing net income by the weighted average common shares outstanding for the period. Diluted income per share is calculated by dividing net income by the sum of the weighted average shares outstanding and additional common shares that would have been outstanding if the dilutive potential common shares had been issued for the Company's common stock awards from the Company's stock award plans.

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

	Fiscal Year		
	2014	**2013**	**2012**
	(in thousands)		
Weighted average common shares outstanding – basic	31,744	32,584	31,577
Dilutive effect of outstanding stock awards	153	278	301
Weighted average common shares outstanding – diluted	31,897	32,862	31,878
Antidilutive stock awards	2,062	2,450	4,541

Fair Value of Financial Instruments: The carrying amounts reported in the Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, accounts payable and other current liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying value of life insurance policies included in other assets approximates fair value based on estimates received from insurance companies.

Segment Information: The Company has one reportable segment.

Note 2. Fixed Assets

Fixed assets consist of the following:

	January 31, 2015	February 1, 2014
	($ in thousands)	
Buildings and improvements	$11,838	$11,838
Fixtures and equipment	117,523	118,655
Leasehold improvements	36,417	32,622
Total fixed assets	165,778	163,115
Allowances for depreciation and amortization	(150,009)	(151,522)
Fixed assets, net	$15,769	$11,593

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

Fiscal Year

	2014	2013	2012
	($ in thousands)		
Cost of sales	$483	$474	$496
Selling, general and administrative expenses	3,905	3,830	3,941
Total	$4,388	$4,304	$4,437

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

Note 3. Gain on Sale of Asset

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

Note 4. Debt

Credit Facility

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

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

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

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

As of January 31, 2015 and February 1, 2014, the Company did not have any borrowings under the Credit Facility. During Fiscal 2014 and Fiscal 2013, the Company did not have any borrowings under the Credit Facility. As of January 31, 2015 and February 1, 2014, the Company had no outstanding letter of credit obligations. The Company had $41 million and $53 million available for borrowing as of January 31, 2015 and February 1, 2014, respectively.

Note 5. Income Taxes

Income tax expense consists of the following:

Fiscal Year

	2014	**2013**	**2012**
	($ in thousands)		
Federal – current	($ 46)	($ 10)	$18
State – current	162	178	230
Deferred	—	—	—
Income tax expense	$116	$168	$248

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

	Fiscal Year		
	2014	2013	2012
Federal statutory rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal tax effect	5.6 %	1.4 %	0.5 %
Change in valuation allowance	(25.8%)	(30.9%)	(34.3%)
Cash surrender value – insurance/ benefit programs	(7.6 %)	(4.2 %)	(0.6 %)
Other	(1.1 %)	0.7 %	0.1 %
Effective income tax rate	6.1 %	2.0 %	0.7 %

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

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

	January 31, 2015	February 1, 2014
	($ in thousands)	
DEFERRED TAX ASSETS		
Accrued expenses	$675	$846
Inventory	287	345
Retirement and compensation related accruals	7,966	7,323
Fixed assets	8,352	9,103
Federal and state net operating loss and credit carryforwards	75,964	75,665
Real estate leases, including deferred rent	2,268	2,492
Losses on investments	1,228	1,234
Goodwill	223	522
Other	982	963
Gross deferred tax assets before valuation allowance	97,945	98,493
Less: valuation allowance	(97,945)	(98,493)
Total deferred tax assets	$—	$—
DEFERRED TAX LIABILITIES	—	—
NET DEFERRED TAX ASSET	$—	$—

The Company has a net operating loss carryforward of $158.8 million for federal income tax purposes and approximately $247 million for state income tax purposes as of the end of Fiscal 2014 that expire at various times through 2034 and are subject to certain limitations and statutory expiration periods. The state net operating loss carryforwards are subject to various business apportionment factors and multiple jurisdictional requirements when utilized. The Company has federal tax credit carryforwards of $1.2 million, of which $0.5 million will expire in 2026, with the remainder available indefinitely. The Company has state tax credit carryforwards of $1.1 million, of which $0.2 million will expire in 2027.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the scheduled reversal of taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. Based on the available objective evidence, management concluded that a full valuation allowance should be recorded against its deferred tax assets. As of January 31, 2015, the valuation allowance decreased to $97.9 million from $98.5 million at February 1, 2014. The reduction in the Company's deferred tax assets was caused primarily by changes in certain deductible temporary differences to offset income before income taxes earned in Fiscal 2014. Management will continue to assess the valuation allowance against the gross deferred assets.

During Fiscal 2014, Fiscal 2013 and Fiscal 2012 the Company paid income taxes, net of refunds, of approximately $0, $0.1 million and $0.1 million, respectively.

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

	Fiscal		
	2014	2013	2012
	($ in thousands)		
Unrecognized tax benefits at beginning of the year	$2,018	$2,078	$2,078
Increases in tax positions from prior years	—	—	—
Decreases in tax positions from prior years	—	—	—
Increases in tax positions for current year	—	—	—
Settlements	—	—	—
Lapse of applicable statute of limitations	(88)	(60)	—
Unrecognized tax benefits at end of the year	$1,930	$2,018	$2,078

As of January 31, 2015, the Company had $1.9 million of gross unrecognized tax benefits, $1.5 million of which would affect the Company's tax rate if recognized. While it is reasonably possible that the amount of unrecognized tax benefits will increase or decrease within the next twelve months, the Company does not expect the change to have a significant impact on its results of operations or financial position.

The Company is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company has substantially concluded all federal income tax matters and all material state and local income tax matters through Fiscal 2010.

The Company's practice is to recognize interest and penalties associated with its unrecognized tax benefits as a component of income tax expense in the Company's Consolidated Statements of Income. During Fiscal 2014, the Company accrued a provision for interest of $0.1 million. As of January 31, 2015, the liability for uncertain tax positions reflected in the Company's Consolidated Balance Sheets was $2.6 million, including accrued interest and penalties of $1.8 million.

Note 6. Leases

Leases – lessee

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

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

	January 31, 2015	February 1, 2014
	($ in thousands)	
Buildings	$9,853	$9,853
Allowances for depreciation and amortization	(9,442)	(8,302)
	$411	$1,551

During 2014, the Company identified an error in the recording of depreciation expense related to its headquarter building, historically reported as a capital lease. The Company determined that certain building improvements, made years ago, have been depreciating over their estimated useful life and not the lease term, which is shorter. The Company determined that an increase to accumulated depreciation of approximately $826,000 was necessary as of January 28, 2012, which has been recorded as an immaterial adjustment to accumulated depreciation and retained earnings as of January 28, 2012. The Company also recorded additional depreciation expense in 2014 related to the Fiscal 2012 and 2013 periods, the impact of which was not deemed material.

At January 31, 2015, the Company leased 309 stores under operating leases, many of which contain renewal options, for periods ranging from one to ten years. Most leases also provide for payment of operating expenses and real estate taxes. Some also provide for contingent rent based on percentage of sales over a certain sales volume.

Net rental expense was as follows:

	Fiscal Year		
	2014	2013	2012
	($ in thousands)		
Minimum rentals	$32,732	$34,719	$39,591
Contingent rentals	11	31	43
	$32,743	$34,750	$39,634

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

	Operating Leases	Capital Leases
	($ in thousands)	
2015	$23,196	1,779
2016	14,200	—
2017	8,890	—
2018	6,641	—
2019	3,754	—
Thereafter	7,070	—
Total minimum payments required	$63,751	$1,779
Less: amounts representing interest		841
Present value of minimum lease payments		938
Less: current portion		938
Long-term capital lease obligations		$0

In addition to the obligations in the table above, a number of the Company's stores have leases which have rent payments based on the store's sales volume in lieu of fixed minimum rent payments. During Fiscal 2014, minimum rent payments based on a store's sales volume were $1.1 million.

Note 7. Benefit Plans

401(k) Savings Plan

The Company offers a 401(k) Savings Plan to eligible employees meeting certain age and service requirements. This plan permits participants to contribute up to 80% of their salary, including bonuses, up to the maximum allowable by IRS regulations. Participants are immediately vested in their voluntary contributions plus actual earnings thereon. As of March 1, 2011, the Company suspended its matching contribution. Effective May 1, 2013, the Company reinstated its matching contribution. Participant vesting of the Company's matching and profit sharing contribution is based on the years of service completed by the participant. Participants are fully vested upon the completion of four years of service. All participant forfeitures of non-vested benefits are used to reduce the Company's contributions or fees in future years. Total expense related to the Company's matching contribution was approximately $437,000, $331,000 and $0 in Fiscal 2014, 2013 and 2012, respectively.

Stock Award Plans

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

Equity awards authorized for issuance under the New Plan total 3.0 million. As of January 31, 2015, of the awards authorized for issuance under the Old Plans, New Plan and 1990 Plan, 2.7 million were granted and are outstanding, 1.8 million of which were vested and exercisable. Shares available for future grants of options and other share based awards under the New Plan at January 31, 2015 and February 1, 2014 were 2.5 million and 2.7 million, respectively.

Total stock-based compensation expense recognized in the Consolidated Statements of Income for Fiscal 2014, Fiscal 2013 and Fiscal 2012 was $0.5 million, $0.3 million and $0.1 million. For Fiscal 2014, Fiscal 2013 and Fiscal 2012 the related total deferred tax benefit was $0. As of January 31, 2015, there was $1.2 million of unrecognized compensation cost related to stock option awards that is expected to be recognized as expense over a weighted average period of 1.4 years.

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

	Stock Option Plan		
	2014	**2013**	**2012**
Dividend yield	0%	0%	0%
Expected stock price volatility	47.0-66.8%	67.6%-75.2%	68.5%-76.8%
Risk-free interest rate	1.45%-2.18%	0.85%-2.1%	0.69%-0.98%
Expected award life (in years)	4.92-5.71	4.92-6.98	4.92-6.98
Weighted average fair value per share of awards granted during the year	$1.65	$2.99	$1.70

The following table summarizes information about stock option awards outstanding under the Old Plans, New Plan and 1990 Plan as of January 31, 2015:

	Outstanding				Exercisable		
Exercise Price Range	**Shares**	Average Remaining **Life**	Weighted Average Exercise **Price**	Aggregate Intrinsic **Value**	**Shares**	Weighted Average Exercise **Price**	Aggregate Intrinsic **Value**
$0.00-$2.66	386,000	5.9	$ 2.13	$ 518,437	247,250	$ 2.04	$ 332,081
2.67-5.33	1,233,125	5.2	4.52	—	624,375	5.27	—
5.34-8.00	204,250	2.1	5.58	—	204,250	5.58	—
8.01-10.67	—	—	—	—	—	—	—
10.68-13.33	—	—	—	—	—	—	—
13.34-16.00	648,475	0.2	14.32	—	648,475	14.32	—
Total	2,471,850	3.8	$ 6.81	$ 518,437	1,724,350	$ 8.25	$ 332,081

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value based on the Company's closing stock price of $3.47 as of January 31, 2015, which would have been received by the award holders had all award holders under the Old Plans, New Plan and 1990 Plan exercised their awards as of that date.

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

	Employee and Director Stock Award Plans				
	Number of Shares Subject To Option	Stock Award Exercise Price Range Per Share	Weighted Average Exercise Price	Other Share **Awards** (1)	Weighted Average Grant Date Value
Balance January 28, 2012	6,126,851	$0.98-$14.32	$ 6.28	362,444	$ 2.71
Granted	305,000	2.53-3.05	2.76	10,491	3.53

Exercised	(174,250)	0.98-3.50	3.31	(279,898)	1.63
Forfeited	(703,750)	0.98-2.31	2.15	—	0.00
Canceled	(889,942)	3.50-14.32	8.03	—	0.00
Balance February 2, 2013	4,663,909	$0.98-$14.32	$ 6.45	93,037	$ 6.04
Granted	285,000	3.48-4.87	4.74	11,620	4.30
Exercised	(1,477,450)	0.98-3.50	3.29	(93,716)	5.42
Forfeited	(305,000)	1.67-4.87	3.08	—	0.00
Canceled	(259,269)	3.50-14.32	8.45	—	0.00
Balance February 1, 2014	2,907,190	$1.73-$14.32	$ 8.07	10,941	$ 9.50
Granted	492,500	3.36-3.50	3.44	226,459	3.47
Exercised	(39,000)	1.73	1.73	—	0.00
Forfeited	(136,250)	1.73-4.87	3.64	—	0.00
Canceled	(752,590)	1.73-14.32	10.31	—	0.00
Balance January 31, 2015	2,471,850	$1.73-$14.32	$ 6.81	237,400	$ 3.75

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

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During Fiscal 2014, 2013 and 2012, the Company recognized expenses of approximately $80,000, $50,000 and $0, respectively, for deferred shares issued to non-employee directors.

($ in thousands)	Stock Option Exercises		
	2014	2013	2012
Cash received for exercise price	$67	$4,869	$564
Intrinsic value	86	701	92

Defined Benefit Plans

The Company maintains a non-qualified Supplemental Executive Retirement Plan ("SERP") for certain Executive Officers of the Company. The SERP, which is unfunded, provides eligible executives defined pension benefits that supplement benefits under other retirement arrangements. The annual benefit amount is based on salary and bonus at the time of retirement and number of years of service.

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

For Fiscal 2014, Fiscal 2013 and Fiscal 2012, net periodic benefit cost recognized under both plans totaled approximately $1.3 million, $1.5 million, and $1.1 million, respectively. The accrued pension liability for both plans was approximately $19.5 million and $16.3 million at January 31, 2015 and February 1, 2014, respectively, and is recorded within other long term liabilities. The accumulated benefit obligation for both plans was approximately $19.5 million and $16.1 million as of January 31, 2015 and February 1, 2014, respectively.

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

Obligation and Funded Status:

($ in thousands)	January 31, 2015	February 1, 2014
Change in Projected Benefit Obligation:		
Benefit obligation at beginning of year	$ 16,287	$ 17,585
Service cost	55	90
Interest cost	689	638
Actuarial loss	2,640	199
Benefits paid	(121)	(121)

Projected Benefit obligation at end of year	$ 19,550	$ 16,287
Fair value of plan assets at end of year	$ —	$ —
Funded status	($ 19,550)	($ 16,287)
Unrecognized prior service cost	580	1,300
Unrecognized net actuarial loss (gain)	502	(2,280)
Accrued benefit cost	($ 18,468)	($ 17,267)

Amounts recognized in the Consolidated Balance Sheets consist of:

($ in thousands)	January 31, 2015	February 1, 2014
Current liability	($ 207)	($ 137)
Long term liability	(19,343)	(16,150)
Add: Accumulated other comprehensive loss (income)	1,082	(980)
Net amount recognized	($ 18,468)	($ 17,267)

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

($ in thousands)

Net Periodic Benefit Cost:

	Fiscal Year		
	2014	**2013**	**2012**
Service cost	$55	$110	$90
Interest cost	689	656	637
Amortization of prior service cost	721	721	342
Amortization of net gain	(143)	(2)	(448)
Net periodic benefit cost	$1,322	$1,485	$1,068

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

Net prior service cost recognized as a component of net periodic benefit cost	$(721)	$(721)
Net actuarial gain recognized as a component of net periodic benefit cost	143	2
Net actuarial losses / (gains) arising during the period	2,640	(1,936)
	2,062	(2,655)
Income tax effect	—	—
Total recognized in other comprehensive (income) loss	$2,062	($ 2,655)
Total recognized in net periodic benefit cost and other comprehensive loss (income)	$3,384	($ 1,170)

The pre-tax components of accumulated other comprehensive loss, which have not yet been recognized as components of net periodic benefit cost as of January 31, 2015, February 1, 2014 and February 2, 2013 and the tax effect are summarized below.

($ in thousands)	January 31, 2015	February 1, 2014	February 2, 2013
Net unrecognized actuarial loss (gain)	$ 502	($ 2,280)	($ 346)
Net unrecognized prior service cost	580	1,300	2,021
Accumulated other comprehensive (income) loss	1,082	(980)	1,675
Tax expense	1,099	1,099	1,099
Accumulated other comprehensive loss	$ 2,181	$ 119	$ 2,774

In Fiscal 2015, approximately $342,000 of net unrecognized prior service cost and approximately $35,000 of the net unrecognized actuarial gain, recorded as components of accumulated other comprehensive loss at January 31, 2015, will be recognized as components of net periodic benefit cost.

Assumptions:

Fiscal Year

	2014	2013
Weighted-average assumptions used to determine benefit obligation:		
Discount rate	3.00 %	4.25 %
Salary increase rate	3.00 %	4.00 %
Measurement date	Jan 31, 2015	Feb 1, 2014

	Fiscal Year		
	2014	2013	2012
Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	4.25 %	3.75 %	4.00 %
Salary increase rate	4.00 %	4.00 %	4.00 %

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The discount rate is based on the rates implicit in high-quality fixed-income investments currently available as of the measurement date. The Citigroup Pension Discount Curve (CPDC) rates are intended to represent the spot rates implied by the high quality corporate bond market in the U.S. The projected benefit payments attributed to the projected benefit obligation have been discounted using the CPDC mid-year rates and the discount rate is the single constant rate that produces the same total present value.

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

Year	**Pension Benefits**
	($ in thousands)
2015	207
2016	1,068
2017	1,079
2018	1,201
2019	1,201
2020 – 2024	5,869

Accumulated Other Comprehensive Income (Loss)

($ in thousands)	Pension and Other Benefit
February 1, 2014	($ 119)
Other comprehensive income before reclassifications	(2,640)
Amounts reclassified from AOCI[1]	578
January 31, 2015	($ 2,181)

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

Note 8. Shareholders’ Equity

During Fiscal 2014, the Company repurchased approximately 1 million shares of common stock for an aggregate purchase price of $3.5 million. Since the inception of the program, the Company has repurchased 1,573,818 shares of common stock at an average price of $3.86 per share. As of January 31, 2015, the Company has approximately $16.0 million available for purchase under their repurchase program.

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

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

Note 9. Related Party Transactions

The Company leases its 181,300 square foot distribution center/office facility in Albany, New York from Robert J. Higgins, its Chairman and largest shareholder, under three capital leases that expire in December 2015. The original distribution center/office facility was occupied in 1985. The Company is currently negotiating a new lease for its facility.

Under the three capital leases, dated April 1, 1985, November 1, 1989 and September 1, 1998, the Company paid Mr. Higgins an annual rent of $2.3 million, $2.3 million and $2.3 million in Fiscal 2014, Fiscal 2013 and Fiscal 2012 respectively. Pursuant to the terms of the lease agreements, effective January 1, 2002 and every two years thereafter, rental payments will increase in accordance with the biennial increase in the Consumer Price Index. Under the terms of the lease agreements, the Company is responsible for property taxes, insurance and other operating costs with respect to the premises. Mr. Higgins does not have any future obligation for principal and interest. None of the leases contain any real property purchase options at the expiration of its term.

The Company leases one of its retail stores from Mr. Higgins under an operating lease. Annual rental payments under this lease were $40,000 in Fiscal 2014, 2013 and 2012. Under the terms of the lease, the Company pays property taxes, maintenance and a contingent rent if a specified sales level is achieved. No contingent rent was paid in Fiscal 2014, Fiscal 2013, and Fiscal 2012. Total additional charges for the store were approximately $2,400, $3,800 and $6,400 in Fiscal 2014, Fiscal 2013 and Fiscal 2012 respectively. The lease expired and was not renewed as of January 31, 2015.

Note 10. Quarterly Financial Information (Unaudited)

	Fiscal 2014 Quarter Ended				
	Fiscal 2014	January 31, 2015	November 1, 2014	August 2, 2014	May 3, 2014
	($ in thousands, except for per share amounts)				
Net sales	$358,490	$126,910	$ 72,456	$71,908	$87,216
Gross profit	135,918	46,560	28,534	28,047	32,777
Net income (loss)	$1,778	$11,737	($ 4,476)	($ 5,097)	($ 386)
Basic income (loss) per share	$0.06	$0.37	($ 0.14)	($ 0.16)	($ 0.01)
Diluted income (loss) per share	$0.06	$0.37	($ 0.14)	($ 0.16)	($ 0.01)

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

Index to Exhibits

Document Number and Description

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

4.6	Consent dated November 27, 2012, pursuant to Amended and Restated Credit Agreement, dated as of April 15, 2010 by and between Trans World Entertainment Corporation and Wells Fargo Bank, National Association - incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 27, 2012. Commission File No. 0-14818.
4.7	Consent dated March 5, 2014, pursuant to Amended and Restated Credit Agreement, dated as of April 15, 2010 by and between Trans World Entertainment Corporation and Wells Fargo Bank, National Association - incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 7, 2014. Commission File No. 0-14818.
10.1	Lease, dated April 1, 1985, between Robert J. Higgins, as Landlord, and Record Town, Inc. and Trans World Music Corporation, as Tenant and Amendment thereto dated April 28, 1986 -- incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1, No. 33-6449.
10.2	Second Addendum, dated as of November 30, 1989, to Lease, dated April 1, 1985, among Robert J. Higgins, and Trans World Music Corporation, and Record Town, Inc., exercising five year renewal option -- incorporated herein by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended February 3, 1990. Commission File No. 0-14818.
10.3	Lease, dated November 1, 1989, between Robert J. Higgins, as Landlord, and Record Town, Inc. and Trans World Music Corporation, as Tenant -- incorporated herein by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended February 2, 1991. Commission File No. 0-14818.

10.5	Lease dated September 1, 1998, between Robert J. Higgins, as Landlord, and Record Town, Inc. and Trans World Music Corporation, as Tenant, for additional office space at 38 Corporate Circle -- incorporated herein by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 1998. Commission File No. 0-14818.
10.6	Trans World Music Corporation 1990 Stock Option Plan for Non-Employee Directors, as amended and restated -- incorporated herein by reference to Annex A to Trans World’s Definitive Proxy Statement on Form 14A filed as of May 19, 2000. Commission File No. 0-14818.
10.7	Trans World Entertainment Corporation 1994 Stock Option Plan -- incorporated herein by reference to Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended July 30, 1994. Commission File No. 0-14818.
10.8	Form of Indemnification Agreement dated May 1, 1995 between the Company and its officers and directors incorporated herein by reference to Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended April 29, 1995. Commission File No. 0-14818.
10.9	Trans World Entertainment Corporation Supplemental Executive Retirement Plan, as amended -- incorporated herein by reference to Exhibit 10.1 to the Company’s Form 8-K filed on July 16, 2012. Commission File No. 0-14818.
10.10	Employment Agreement, dated as of December 26, 2008, between the Company and Robert J. Higgins. Incorporated herein by reference to Exhibit 10.1 to the Company’s Form 8-K filed on December 29, 2008. Commission File No. 0-14818.
10.11	Trans World Entertainment Corporation 2005 Long Term Incentive and Share Award Plan incorporated herein by reference to Appendix A to Trans World Entertainment Corporation’s Definitive Proxy Statement on Form 14A filed as of May 11, 2005. Commission File No. 0-14818.
10.12	Trans World Entertainment Corporation Executive Officers Bonus Plan -- incorporated herein by reference to Appendix A to Trans World Entertainment Corporation’s Definitive Proxy Statement on Form 14A filed as of May 20, 2009. Commission File No. 0-14818.
10.13	Trans World Entertainment Corporation Amended and Restated 2005 Long Term Incentive and Share Award Plan incorporated herein by reference to Appendix A to Trans World Entertainment Corporation’s Definitive Proxy Statement on Form 14A filed as of May 30, 2014. Commission File No. 0-14818.
10.14	Employment Agreement, dated as of August 27, 2014 between the Company and Michael Feurer, Incorporated herein by reference to Exhibit 10.1 to the Company’s Form 8-K filed on September 3, 2014. Commission File No. 0-14818

*21	Significant Subsidiaries of the Registrant.
*23	Consent of KPMG llp.
*31.1	Certification of Chief Executive Officer dated April 16, 2014, relating to the Registrant’s Annual Report on Form 10-K for the year ended January 31, 2015, pursuant to Rule 13a-14(a) or Rule 15a-14(a).
*31.2	Certification of Chief Financial Officer dated April 16, 2014, relating to the Registrant’s Annual Report on Form 10-K for the year ended January 31, 2015, pursuant to Rule 13a-14(a) or Rule 15a-14(a).
*32	Certification of Chief Executive Officer and Chief Financial Officer of Registrant, dated April 17, 2014, pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 relating to the Registrant’s Annual Report on Form 10-K for the year ended January 31, 2015.
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase
*101.DEF	XBRL Taxonomy Extension Definition Linkbase
*101.LAB	XBRL Taxonomy Extension Label Linkbase
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith