

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MAY 5, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER: 0-14818

TRANS WORLD ENTERTAINMENT CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

14-1541629

(I.R.S. Employer
Identification Number)

38 Corporate Circle

Albany, New York 12203

(Address of principal executive offices, including zip code)

(518) 452-1242

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

Common Stock, \$.01 par value,
31,075,684 shares outstanding as of June 1, 2007

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
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TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
PART 1. FINANCIAL INFORMATION
Item 1 - Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)
(unaudited)

| | May 5, 2007 | February 3, 2007 | April 29, 2006 |
|---|-------------------|---------------------|-------------------|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$ 13,688 | \$ 118,630 | \$ 17,887 |
| Merchandise inventory | 494,687 | 504,860 | 568,735 |
| Income taxes receivable, net | 1,060 | --- | 3,119 |
| Deferred taxes | 8,081 | 9,039 | 12,673 |
| Other current assets | 26,423 | 13,827 | 15,224 |
| Total current assets | <u>543,939</u> | <u>646,356</u> | <u>617,638</u> |
| NET FIXED ASSETS | 131,186 | 138,252 | 128,658 |
| DEFERRED TAXES | 34,516 | 32,715 | 29,593 |
| OTHER ASSETS | 12,004 | 12,367 | 15,925 |
| TOTAL ASSETS | <u>\$ 721,645</u> | <u>\$ 829,690</u> | <u>\$ 791,814</u> |
| LIABILITIES | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | \$ 171,147 | \$ 306,377 | \$ 232,057 |
| Borrowings under line of credit | 55,000 | --- | 35,550 |
| Income taxes payable, net | --- | 13,646 | --- |
| Accrued expenses and other | 51,219 | 56,736 | 77,573 |
| Current portion of long-term debt | 514 | 506 | 484 |
| Current portion of capital lease obligations | 2,814 | 2,887 | 3,144 |
| Total current liabilities | <u>280,694</u> | <u>380,152</u> | <u>348,808</u> |
| LONG-TERM DEBT, less current portion | 3,954 | 4,085 | 4,464 |
| CAPITAL LEASE OBLIGATIONS, less current portion | 11,278 | 12,000 | 14,093 |
| OTHER LONG-TERM LIABILITIES | 38,969 | 40,248 | 52,364 |
| TOTAL LIABILITIES | <u>334,895</u> | <u>436,485</u> | <u>419,729</u> |
| SHAREHOLDERS' EQUITY | | | |
| Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued) | --- | --- | --- |
| Common stock (\$0.01 par value; 200,000,000 shares authorized; 56,175,449, 55,998,109 and 55,876,421 shares issued, respectively) | 562 | 560 | 559 |
| Additional paid-in capital | 302,496 | 301,526 | 299,297 |
| Treasury stock at cost (25,102,990, 25,103,990 and 25,104,990 shares, respectively) | (217,555) | (217,560) | (217,564) |
| Accumulated other comprehensive loss | (1,888) | (1,888) | (2,048) |
| Retained earnings | 303,135 | 310,567 | 291,841 |
| TOTAL SHAREHOLDERS' EQUITY | <u>386,750</u> | <u>393,205</u> | <u>372,085</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>\$ 721,645</u> | <u>\$ 829,690</u> | <u>\$ 791,814</u> |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Thirteen Weeks Ended | |
|---|----------------------|-------------------|
| | May 5, 2007 | April 29, 2006 |
| Sales | \$ 286,307 | \$ 288,537 |
| Cost of sales | 181,926 | 188,093 |
| Gross profit | 104,381 | 100,444 |
| Selling, general and administrative expenses | 118,799 | 114,104 |
| Loss from operations | (14,418) | (13,660) |
| Interest expense, net | 1,403 | 495 |
| Loss before income tax benefit and extraordinary gain | | |
| - unallocated negative goodwill | (15,821) | (14,155) |
| Income tax benefit | (6,752) | (6,164) |
| Loss before extraordinary gain - unallocated | | |
| negative goodwill | (9,069) | (7,991) |
| Extraordinary gain - unallocated negative goodwill, net of income taxes of \$0 and \$720, respectively | --- | 934 |
| Net loss | \$ (9,069) | \$ (7,057) |
| BASIC LOSS PER SHARE: | | |
| Loss per share before extraordinary gain -unallocated negative goodwill | \$ (0.29) | \$ (0.26) |
| Extraordinary gain – unallocated negative goodwill | --- | 0.03 |
| Basic loss per share | \$ (0.29) | \$ (0.23) |
| Weighted average number of common | | |
| shares outstanding – basic | 30,956 | 30,649 |
| DILUTED LOSS PER SHARE: | | |
| Loss per share before extraordinary gain -unallocated negative goodwill | \$ (0.29) | \$ (0.26) |
| Extraordinary gain – unallocated negative goodwill | --- | 0.03 |
| Diluted loss per share | \$ (0.29) | \$ (0.23) |
| Weighted average number of common | | |
| shares outstanding – diluted | 30,956 | 30,649 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Thirteen Weeks Ended | |
|---|----------------------|-------------------|
| | May 5, 2007 | April 29, 2006 |
| Net cash used by operating activities | \$ (155,958) | \$ (135,542) |
| Cash flows from investing activities: | | |
| Purchases of fixed assets | (3,601) | (5,928) |
| Acquisition of businesses | --- | (73,079) |
| Net cash used by investing activities | (3,601) | (79,007) |
| Cash flows from financing activities: | | |
| Proceeds from line of credit | 55,000 | 35,550 |
| Payments of long-term debt | (123) | (116) |
| Payments of capital lease obligations | (795) | (834) |
| Proceeds from the exercise of stock awards | 535 | 627 |
| Net cash provided by financing activities | 54,617 | 35,227 |
| Net decrease in cash and cash equivalents | (104,942) | (179,322) |
| Cash and cash equivalents, beginning of year | 118,630 | 197,209 |
| Cash and cash equivalents, end of period | \$ 13,688 | \$ 17,887 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Issuance of treasury stock under incentive stock programs | \$ 6 | \$ --- |
| Issuance of deferred shares | 160 | --- |

See Accompanying Notes to Condensed Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
May 5, 2007 and April 29, 2006

Note 1. Nature of Operations

Trans World Entertainment Corporation and subsidiaries (“the Company”) is one of the largest specialty retailers of entertainment software, including music, home video, 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, www.secondspin.com, www.samgoody.com and www.suncoast.com in a single industry segment. As of May 5, 2007, the Company operated 972 stores totaling approximately 5.9 million square feet in the United States, the District of Columbia, the Commonwealth of Puerto Rico and the U.S. Virgin Islands.

Seasonality:

The Company’s business is seasonal in nature, with the fourth fiscal quarter constituting the Company’s peak selling period. In 2006, the fourth fiscal quarter accounted for approximately 40% of annual sales. In anticipation of increased sales activity during these months, the Company purchases additional inventory and hires additional, temporary employees to supplement its permanent store sales staff. If, for any reason, the Company’s net sales were below seasonal norms during the fourth quarter, the Company’s operating results, particularly operating and net income, could be adversely affected. Additionally, quarterly sales results, in general, are affected by the timing of new product releases, new store openings or closings and the performance of existing stores.

Note 2: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements consist of Trans World Entertainment Corporation, its wholly-owned subsidiary, Record Town, Inc. (“Record Town”), and Record Town’s subsidiaries, all of which are wholly-owned and two majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

The interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished in these unaudited condensed consolidated financial statements reflects all normal, recurring adjustments which, in the opinion of management, are necessary for the fair presentation of such financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to rules and regulations applicable to interim financial statements.

The information presented in the accompanying unaudited condensed consolidated balance sheet as of February 3, 2007 has been derived from the Company’s February 3, 2007 audited consolidated financial statements. All other information has been derived from the Company’s unaudited condensed consolidated financial statements as of and for the thirteen weeks ended May 5, 2007 and April 29, 2006. These unaudited condensed consolidated financial statements should be read in conjunction with

the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007. Certain reclassifications have been made to prior periods to conform to the current period presentation.

The Company's significant accounting policies are the same as those described in Note 1 to the Company's Consolidated Financial Statements on Form 10-K for the fiscal year ended February 3, 2007.

Note 3. Stock Based Compensation

Effective January 29, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (Revised 2004), "*Share-Based Payment*" ("SFAS No. 123 (R)"), which amends SFAS No. 123 and supersedes Accounting Principles Board Opinion ("APB") No. 25 in establishing standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, as well as transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123 (R) requires that the cost resulting from all share-based payment transactions be recognized in the financial statements based on the fair value of the share-based payment. SFAS No. 123 (R) establishes fair value as the measurement objective in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. As allowed under SFAS No. 123 (R), the Company elected the modified prospective method of adoption, under which compensation cost is recognized in the financial statements beginning with the effective date of SFAS No. 123 (R) for all share-based payments granted after that date, and for all unvested awards granted prior to the effective date of SFAS No. 123 (R). Accordingly, prior period amounts have not been restated.

Total stock-based compensation expense recognized in the condensed consolidated statements of operations for the thirteen weeks ended May 5, 2007 and April 29, 2006 was \$0.4 million and \$0.3 million, respectively, before income taxes. The related total deferred tax benefit was approximately \$0.2 million and \$0.1 million for the thirteen weeks ended May 5, 2007 and April 29, 2006, respectively.

As of May 5, 2007, there was approximately \$4.3 million of unrecognized compensation cost related to stock award awards that is expected to be recognized as expense over a weighted average period of 3.1 years.

The Company has six employee stock award plans, the 1986 Stock Option Plan, the 1994 Stock Option Plan, the 1998 Stock Option Plan, the 1999 Stock Option Plan and the 2002 Stock Option Plan (the "Old Plans"); and the 2005 Long Term Incentive Share Plan (the "New Plan"). Additionally, the Company has a stock award plan for non-employee directors (the "1990 Plan"). The Company has stopped issuing stock options under the Old Plans. Under the New Plan, the Company generally issues Stock-Settled Appreciation Rights ("SSARS") that become exercisable in 50% increments commencing three years from the date of grant and have a maximum term of ten years from issuance. Under the 1990 Plan, awards generally become exercisable commencing one year from the date of grant in increments of 25% per year with a maximum term of ten years. In addition, directors of the Company receive annual grants of deferred shares of Common Stock ("Deferred Shares") issued under the 1990 Plan which vest equally in three years from date of grant.

Stock awards authorized for issuance under the Old Plans, New Plan and 1990 Plan total 20.6 million. As of May 5, 2007, of the awards authorized for issuance, 10.4 million were granted and are outstanding, 7.9 million of which were vested and exercisable. Awards available for future grants at May 5, 2007 were 3.2 million.

SFAS No. 123(R) requires the use of a valuation model to calculate the fair value of stock-based awards. The Company has elected to use the Black-Scholes award valuation model, which incorporates various assumptions including those for volatility, expected life and interest rates.

The table below outlines the assumptions that the Company used to estimate the fair value of stock based awards granted during the thirteen weeks ended May 5, 2007:

| | Thirteen weeks ended May 5, 2007 |
|---|-------------------------------------|
| Dividend yield | 0% |
| Expected stock price volatility | 66.9% - 68.7% |
| Risk-free interest rate | 4.54% - 4.64% |
| Expected award life (in years) | 5-6 |
| Weighted average fair value per share of awards granted during the period | \$3.40 |

The Company has not paid dividends in the past and does not plan to pay dividends in the near future. Expected stock price volatility is based on the historical volatility of the Company's stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury issues with an equivalent term approximating the expected life of the awards. The expected award life (in years) represents the estimated period of time until exercise and is based on historical experience of similar awards.

The following table summarizes stock award activity during the thirteen weeks ended May 5, 2007:

| Employee and Director Stock Award Plans | | | |
|--|--|--|--|
| | Number of Shares Subject To Award | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
| Balance February 3, 2007 | 10,058,854 | \$8.69 | 5.5 |
| Granted | 632,216 | 4.42 | --- |
| Exercised | (154,614) | 3.46 | --- |
| Forfeited or expired | (153,573) | 8.38 | --- |
| Balance May 5, 2007 | 10,382,883 | 8.52 | 5.5 |
| Exercisable at May 5, 2007 | 7,898,287 | \$9.73 | 4.6 |

The intrinsic value of stock awards exercised was \$290,000 during the thirteen weeks ended May 5, 2007. The intrinsic value of stock awards outstanding and exercisable as of May 5, 2007 was \$4,459,000 and \$2,307,000, respectively.

Note 4. 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 Company had previously provided the Board of Directors with a noncontributory, unfunded retirement plan (“Director Retirement Plan”) that paid a retired director an annual retirement benefit. Directors who were not yet vested in their retirement benefits as of June 1, 2003 had the present value of benefits already accrued as of the effective date converted to deferred shares of the Company’s Common Stock. Directors that were fully or partially vested in their retirement benefits were given a one time election to continue to participate in the current retirement program or convert the present value of their benefits to deferred shares.

The measurement date for the SERP and Director Retirement Plan is November 1 using actuarial techniques which reflect estimates for mortality, turnover and expected retirement. In addition, management makes assumptions concerning future salary increases. Discount rates are generally established as of the measurement date using theoretical bond models that select high-grade corporate bonds with maturities or coupons that correlate to the expected payouts of the applicable liabilities.

The Company accounts for the SERP and the Director Retirement Plan in accordance with the provisions of SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans*. The following represents the components of the net periodic pension cost related to the Company’s SERP and Director Retirement Plan for the respective periods:

| | Thirteen weeks ended | |
|------------------------------------|--------------------------|-------------------|
| | May 5, 2007 | April 29, 2006 |
| | <i>(\$ in thousands)</i> | |
| Service cost | \$ 54 | \$ 170 |
| Interest cost | 191 | 221 |
| Amortization of prior service cost | 85 | 85 |
| Amortization of net (gain)/loss | (1) | 69 |
| Net periodic pension cost | <u>\$ 329</u> | <u>\$ 545</u> |

During the thirteen weeks ended May 5, 2007, the Company did not make any cash contributions to the SERP or the Director Retirement Plan, and presently expects to pay approximately \$35,000 in benefits relating to the SERP and \$15,000 in benefits relating to the Director Retirement Plan during Fiscal 2007.

Note 5. Business Combinations

On March 27, 2006, the Company acquired substantially all the net assets of Musicland Holding Corp. (“Musicland”). The acquisition of Musicland’s assets provided the Company with the ability to leverage its overhead expenses over a greater store base, and strategically increase the Company’s national presence and provide further growth opportunities. Under the terms of the Asset Purchase Agreement, the Company acquired 335 of Musicland’s 400 stores, with the remainder of the stores being liquidated under an agency agreement with Hilco Merchant Resources LLC. Musicland, which operated retail stores and websites under the names Sam Goody (samgoody.com), Suncoast Motion Picture Company (suncoast.com), On Cue and MediaPlay.com, filed a voluntary petition to restructure under Chapter 11 of the United States Bankruptcy Code in January 2006. The acquisition was accounted for using the purchase method of accounting. The unaudited condensed consolidated statement of operations for the thirteen weeks ended April 29, 2006 includes the results of Musicland beginning March 27, 2006.

The purchase price for the acquired Musicland assets was \$78.8 million, including acquisition-related costs of \$1.8 million. From March 27, 2006 to February 3, 2007, the Company allocated the purchase price in accordance with the provisions of SFAS No. 141, *Business Combinations*, resulting in an extraordinary gain – unallocated negative goodwill of \$10.7 million, net of income taxes of \$6.7, representing the excess of the fair value of net assets acquired over the purchase price. The extraordinary gain recorded during the thirteen weeks ended April 29, 2006 was \$0.9 million, which was net of income taxes of \$0.7 million.

In March 2006, the Company acquired a majority interest in Mix & Burn LLC, a company that is fully consolidated for financial reporting. Mix & Burn LLC is a provider of digital content services to retailers nationwide. Using its technology, consumers can create custom music CDs from an extensive catalog of new and old content. This acquisition enables the Company’s retail locations to offer customers new content, new products and new services relating to music players and music player enabled cell phones in its stores.

Note 6. Line of Credit

The Company has a five-year, \$150 million secured revolving credit facility with Bank of America, N.A. that expires in January 2011. The revolving credit facility contains provisions governing additional indebtedness and acquisitions and is secured by the assets of the Company. The Company anticipates the amount of the revolving credit facility being fully available to the Company through its term, and does not anticipate any difficulty in obtaining a replacement facility upon its expiration. As of May 5, 2007, the Company had borrowed \$55.0 million, under the revolving credit facility, had \$0 in outstanding letter of credit obligations under the revolving credit facility and \$95.0 million was available for borrowing. The weighted average interest rate on outstanding borrowings for the thirteen week period ended May 5, 2007 was 6.41% .

As of April 29, 2006, the Company had borrowed \$35.6 million, under the revolving credit facility, had \$26.1 million in outstanding letter of credit obligations under the revolving credit facility and \$68.3 million was available for borrowing. The weighted average interest rate on outstanding borrowings for the thirteen weeks ended April 29, 2006 was 6.51% .

Note 7. Income Taxes

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. In particular, FIN 48 requires uncertain tax positions to be recognized only if they are more-likely-than-not to be upheld based on their technical merits. Additionally, the measurement of a tax position will be based on the largest amount that is determined to have greater than a 50% likelihood of realization upon ultimate settlement. Any resulting cumulative effect of adopting the provisions of FIN 48 are to be reported as an adjustment to the beginning balance of retained earnings in the period of adoption.

The Company adopted FIN 48 as of February 4, 2007 which resulted in a \$1.6 million decrease in the Company's reserve for uncertain tax positions. At the beginning of Fiscal 2007 the Company had \$2.3 million of gross unrecognized tax benefits, \$2.2 million of which would affect the Company's tax rate. The Company does not expect any material changes to the estimated amount of liability associated with its uncertain tax positions through February 2, 2008.

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 for the years through 2000 and all material state and local income tax matters for the years through 2002.

The Company's practice is to recognize interest and penalties related to income tax matters in income tax expense (benefit). The Company had \$0.6 million accrued for interest and penalties as of February 4, 2007.

Note 8. Comprehensive Loss

The Company accounts for comprehensive (loss) income in accordance with SFAS No. 130, *Reporting Comprehensive Income*. SFAS No. 130 requires only additional disclosures in the consolidated financial statements; it does not affect the Company's financial position or results of operations. Other accumulated comprehensive loss that the Company currently reports in the condensed consolidated balance sheets represents the excess of accrued pension liability over accrued benefit cost, net of taxes, associated with the Company's defined benefit plans.

Comprehensive loss was equal to net loss for the thirteen weeks ended May 5, 2007 and April 29, 2006.

Note 9. Depreciation and Amortization

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

| | Thirteen weeks ended | |
|--|-----------------------|-------------------|
| | May 5, 2007 | April 29, 2006 |
| | <i>(in thousands)</i> | |
| Cost of sales | \$ 679 | \$ 756 |
| Selling, general and administrative expenses | 9,241 | 8,652 |
| Total | \$ 9,920 | \$ 9,408 |

Note 10. Earnings Per Share

Weighted average shares are calculated as follows:

| | Thirteen weeks ended | |
|--|-----------------------|----------------|
| | May 5, 2007 | April 29, 2006 |
| | <i>(in thousands)</i> | |
| Weighted average common shares outstanding – basic | 30,956 | 30,649 |
| Dilutive effect of employee stock awards | --- | --- |
| Weighted average common shares outstanding – diluted | 30,956 | 30,649 |
| Anti-dilutive stock awards | 6,949 | 7,340 |

For the thirteen week periods ended May 5, 2007, and April 29, 2006, the impact of outstanding stock awards was not considered because the Company reported a net loss and such impact would be anti-dilutive.

Note 11. Legal Proceedings

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

Note 12. Contractual Obligations and Commitments.

The Company's Annual Report on Form 10-K for the year ended February 3, 2007 provides a summary of the Company's contractual obligations at February 3, 2007, and the effect that such obligations are expected to have on liquidity and cash flows in future periods. There were no material commitments entered into and there have been no material changes in the status of existing commitments during the thirteen weeks ended May 5, 2007.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

PART 1. FINANCIAL INFORMATION

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

May 5, 2007 and April 29, 2006

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations provides information that the Company's management believes necessary to achieve an understanding of its financial statements and results of operations. To the extent that such analysis contains statements which are not of a historical nature, such statements are forward-looking statements, which involve risks and uncertainties. These risks include, but are not limited to, changes in the competitive environment for the Company's merchandise, including the entry or exit of non-traditional retailers of the Company's merchandise to or from its markets; releases by the music, home video and video games industries of an increased or decreased number of "hit releases"; general economic factors in markets where the Company's merchandise is sold; and other factors discussed in the Company's filings with the Securities and Exchange Commission. The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included elsewhere in this report and the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

At May 5, 2007, the Company operated 972 stores totaling approximately 5.9 million square feet in the United States, the District of Columbia, the Commonwealth of Puerto Rico and the U.S. Virgin Islands. The Company's stores offer predominantly entertainment software, including music, home video and video games and related products. In total, these categories represented 89% of the Company's sales in the thirteen weeks ended May 5, 2007. The balance of categories, including software accessories, boutique and electronic products represented 11% of the Company's sales in the thirteen weeks ended May 5, 2007.

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

Sales: The Company measures the rate of comparable store sales change. A store is included in comparable store sales calculations at the beginning of its thirteenth full month of operation. Mall stores relocated in the same shopping center after being open for at least thirteen months are considered comparable stores. 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 sales by store format and by product category.

Cost of Sales and Gross Profit: Gross profit is impacted primarily by the mix of products sold, by discounts negotiated with vendors and discounts offered to customers. The Company records its distribution and product shrink expenses in cost of sales. Distribution expenses include those costs associated with purchasing, receiving, shipping, inspecting and warehousing product and costs associated with product returns to vendors. Cost of sales further includes obsolescence costs and is reduced by the benefit of vendor allowances, net of direct reimbursements of expense.

Selling, General and Administrative (“SG&A”) Expenses: Included in SG&A expenses are payroll and related costs, occupancy charges, professional and service fees, general operating and overhead expenses and depreciation charges (excluding those related to distribution operations, as disclosed in Note 9 to the condensed consolidated financial statements). SG&A expenses also include asset impairment charges and write-offs, if any, and miscellaneous items, other than interest.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the reported amounts of assets and liabilities in the financial statements. Management continually evaluates its estimates and judgments including those related to merchandise inventory and return costs, valuation of long-lived assets, income taxes, stock-based compensation 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 Notes to the Consolidated Financial Statements on Form 10-K for the year ended February 3, 2007 includes a summary of the significant accounting policies and methods used by the Company in the preparation of its condensed 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 as determined by 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 software 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 throughout the year and inventory records are adjusted accordingly.

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

Valuation of Long-Lived Assets:

The Company assesses the potential impairment of long-lived assets to determine if any part of the carrying value may not be recoverable. Factors that the Company considers to be important when assessing impairment include:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of assets or the strategy for the Company's overall business;
- significant negative industry or economic trends;

If the Company determines that the carrying value of a long-lived asset may not be recoverable, it tests for impairment to determine if an impairment charge is needed.

Income Taxes:

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 and viable tax planning strategies. Valuation allowances are recorded against deferred tax assets if, based upon management's estimates of realizability, it is more likely than not that some portion or all of these deferred tax assets will not be realized. The accounting for tax positions in accordance with FIN 48 requires management to make estimates relative to the likelihood of realization upon ultimate settlement of certain tax positions. For additional discussion regarding income taxes refer to Note 7 in the notes to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q and Note 6 in the notes to the consolidated financial statements in the Annual Report on Form 10-K for the year ended February 3, 2007.

Stock-based Compensation:

The Company accounts for stock-based compensation under SFAS No. 123(R) which requires compensation to be recorded based on the fair value of stock awards on the date of grant. Determining the amount of stock-based compensation to be recorded requires the Company to develop estimates to be used in calculating the grant-date fair value of stock options. The Company calculates the grant-date fair values using the Black-Scholes valuation model. The Black-Scholes model requires the Company to make estimates of the following assumptions:

Expected volatility—The estimated stock price volatility was derived based upon the Company's actual historic stock prices over the expected life of the options, which represents the Company's best estimate of expected volatility.

Expected option life—The Company's estimate of an expected option life was calculated based on actual historical data relating to grants, exercises and cancellations.

Risk-free interest rate—The Company used the yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected life assumption as the risk-free interest rate.

The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term “forfeitures” is distinct from “cancellations” or “expirations” and represents only the unvested portion of the surrendered option. The Company reviewed historical forfeiture data and determined the appropriate forfeiture rate based on that data. The Company will re-evaluate this analysis periodically and adjust the forfeiture rate as necessary. Ultimately, the Company will recognize the actual expense over the vesting period only for the shares that vest.

Accounting for Gift Card Liability:

The Company sells gift cards that are redeemable only for merchandise and have no expiration date. The Company reverses card liability when either customers redeem cards, at which point the Company records revenue; or 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 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.

RESULTS OF OPERATIONS

Thirteen Weeks Ended May 5, 2007 Compared to the Thirteen Weeks Ended April 29, 2006

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

| | Thirteen weeks ended | | | % | Comparable Store Sales |
|--------------------------|---|-------------------|------------------|----------------|---------------------------|
| | May 5, 2007 | April 29, 2006 | Change | | |
| | <i>(in thousands except store data)</i> | | | | |
| Sales: | \$ 286,307 | \$ 288,537 | (\$2,230) | (0.8)% | (10.1)% |
| As a percentage of sales | | | | | |
| Music | 44% | 52% | | | (21.1)% |
| Home Video | 38% | 32% | | | 3.7% |
| Video Games | 7% | 7% | | | (11.8)% |
| Other | 11% | 9% | | | 10.5% |
| Store Count: | 972 | 1,107 | (135) | (12.2)% | |

Sales. The decrease in sales during the thirteen weeks ended May 5, 2007 resulted from a comparable store sales decline of 10.1%, partially offset by an increases in average store count to 982 during the thirteen weeks ended May 5, 2007 compared to 864 during the thirteen weeks ended April 29, 2006.

Music:

The Company's stores and Internet websites offer a wide range of compact discs ("CDs") and music DVDs across most music genres, including new releases from current artists as well as an extensive catalog of music from past periods and artists. The CD category represented 96% of total music sales for the thirteen weeks ended May 5, 2007.

The Company's music sales for the thirteen weeks ended May 5, 2007 decreased 16.7% from last year and comparable store sales in the CD category decreased 20.8% . The decrease corresponded with continued industry declines. According to Soundscan, total music industry unit sales were down 17.4% in the first quarter of 2007 as compared to last year.

Home Video:

The Company offers home video products in all of its stores. DVD represented 99% of the home video category sales in the thirteen weeks ended May 5, 2007. Comparable store sales in the home video category increased 3.7% driven by a comparable store sales increase of 5.5% in the DVD category. The DVD increase was partially offset by the exit of VHS product.

Video Games:

The Company offers video game hardware and software in most of its stores. Comparable store sales decreased 11.8% in the thirteen weeks ended May 5, 2007 due to lower hardware and software sales.

Other:

The Company offers accessory items for the use, care and storage of entertainment software, along with boutique and electronic products. For the thirteen weeks ended May 5, 2007, comparable store sales on a combined basis increased 10.5% for these categories. In addition, on a combined basis, these categories represented 11% of total sales during the thirteen weeks ended May 5, 2007 compared to 9% for the thirteen weeks ended April 29, 2006. The increase in this category was driven by added sales of MP3 players and mobile phones.

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

| | Thirteen weeks ended | | Change | |
|--------------------------|-----------------------|----------------|---------|------|
| | <i>(in thousands)</i> | | | |
| | May 5, 2007 | April 29, 2006 | \$ | % |
| Gross Profit | \$104,381 | \$100,444 | \$3,937 | 3.9% |
| As a percentage of sales | 36.5% | 34.8% | | |

The increase in gross profit as a percentage of sales reflects increased gross margin in the Company's core categories of music and home video.

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

| | Thirteen weeks ended | | Change | |
|--------------------------|-----------------------|----------------|---------|------|
| | <i>(in thousands)</i> | | | |
| | May 5, 2007 | April 29, 2006 | \$ | % |
| SG&A Expenses | \$118,799 | \$114,104 | \$4,695 | 4.1% |
| As a percentage of sales | 41.5% | 39.5% | | |

The increase of \$4.7 million in SG&A expenses during the thirteen weeks ended May 5, 2007 is due to the costs associated with a greater store count as, on average, the Company operated 982 stores during the thirteen weeks ended May 5, 2007 compared to 864 during the thirteen weeks ended April 29, 2006. SG&A expenses as a percentage of sales increased from 39.5% for the thirteen weeks ended April 29, 2006 to 41.5% for the thirteen weeks ended May 5, 2007 due to the increased costs described above coupled with the 0.8% sales decline from last year.

Interest Expense, Net. Net interest expense was \$1.4 million during the thirteen weeks ended May 5, 2007 compared to \$0.5 million for the thirteen weeks ended April 29, 2006. The increase is due to higher average borrowings under the Company's revolving credit facility.

Income Tax Benefit. The following table sets forth a period over period comparison of the Company's income tax expense (benefit):

| | Thirteen weeks ended | |
|--|-----------------------|----------------|
| | <i>(in thousands)</i> | |
| | May 5, 2007 | April 29, 2006 |
| Income tax benefit before impact of quarter-specific items | \$(7,189) | \$(6,005) |
| Effective tax rate before impact of quarter specific items | 45.4% | 42.4% |
| Tax expense (benefit) of quarter-specific items | 437 | (159) |
| Income tax benefit | \$(6,752) | \$(6,164) |

The Company records its quarterly income tax (benefit) expense based on an estimate of its annual effective tax rate, which further requires the Company to estimate its annual pretax income. The higher the estimate of annual pre-tax income, the lower the tax rate, due to the inclusion in income tax expense of certain taxes that are incurred regardless of the level of taxable income and due to the impact of nondeductible expenses. Conversely, these items cause the tax rate to increase as pre-tax income (and estimates thereof) decrease. The effective tax rate before impact of quarter-specific items for the thirteen weeks ended May 5, 2007 increased because the estimate of annual pre-tax income for 2007 is lower than the estimate of 2006 annual pre-tax income used to determine income taxes for the thirteen weeks ended April 29, 2006.

For the thirteen weeks ended May 5, 2007, the tax expense associated with quarter-specific items is primarily attributable to changes in state tax laws enacted during the period. For the thirteen weeks ended April 29, 2006, the tax benefit associated with quarter-specific items is attributable to federal tax credits approved by the IRS net of a reduction in estimated realization of state net operating losses.

Extraordinary Gain – Unallocated Negative Goodwill. On March 27, 2006, the Company acquired substantially all of the net assets of Musicland Holding Corp. During the thirteen weeks ended April 29, 2006, the Company determined the preliminary purchase price allocation in accordance with the provisions of SFAS No. 141, *Business Combinations*, resulting in an extraordinary gain of \$0.9 million, net of income taxes of \$0.7 million, related to unallocated negative goodwill.

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

| | Thirteen weeks ended | |
|---|-----------------------------|-----------------------|
| | <i>(in thousands)</i> | |
| | <u>May 5, 2007</u> | <u>April 29, 2006</u> |
| Loss before extraordinary gain | \$(9,069) | \$(7,991) |
| Extraordinary gain – unallocated negative goodwill, net of income taxes of \$0 and \$0.7 million respectively | --- | 934 |
| Net loss | <u>\$(9,069)</u> | <u>\$(7,057)</u> |

Net loss increased \$2.0 million to \$9.1 million during the thirteen weeks ended May 5, 2007, as a \$5.6 million increase in SG&A expenses and net interest expense was partially offset by a \$3.9 million increase in gross profit and \$0.6 increase in income tax benefit. Additionally, last year's net loss included an extraordinary gain of \$0.9 million, net of taxes, related to the Musicland acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Cash Flows. The Company's primary sources of working capital are cash provided by operations and borrowings under its revolving credit facility. The Company's cash flows fluctuate from quarter to quarter due to various items, including the seasonality of sales and results from operations, merchandise inventory purchases and the related terms on the purchases, tax payments, capital expenditures, and store acquisitions. Management believes it will have adequate resources to fund its cash needs for the foreseeable future.

The following table sets forth a summary of key components of cash flow and working capital for each of the thirteen weeks ended May 5, 2007 and April 29, 2006:

| <i>(in thousands)</i> | Thirteen weeks ended | | Change |
|------------------------------|----------------------|-------------------|------------|
| | May 5, 2007 | April 29, 2006 | \$ |
| Operating Cash Flows | \$(155,958) | \$(135,542) | \$(20,416) |
| Financing Cash Flows | 54,617 | 35,227 | 19,390 |
| Acquisition of businesses | --- | (73,079) | 73,079 |
| Capital Expenditures | 3,601 | 5,928 | (2,327) |
| Cash and Cash Equivalents | 13,688 | 17,887 | (4,199) |
| Merchandise Inventory | 494,687 | 568,735 | (74,048) |
| Working Capital | 263,245 | 268,830 | (5,585) |

The Company had cash and cash equivalents of \$13.7 million at May 5, 2007, compared to \$118.6 million at February 3, 2007 and \$17.9 million at April 29, 2006. Merchandise inventory was \$84 per square foot at May 5, 2007, compared to \$93 per square foot at April 29, 2006. Merchandise inventory as of April 29, 2006 included approximately \$35 million of merchandise inventory at a third party distribution center as part of the Musicland transaction.

Cash used by operating activities was \$156.0 million for the thirteen weeks ended May 5, 2007. The primary uses of cash were a \$135.1 million seasonal reduction of accounts payable and \$6.5 million in federal and state income tax payments. The Company's merchandise inventory and accounts payable are heavily influenced by the seasonality of its business. A significant reduction of accounts payable occurs annually in the fiscal first quarter, reflecting payments for merchandise inventory sold during the prior year's holiday season.

The seasonality of the Company's earnings in its fiscal fourth quarter also results in the timing of substantially all income tax payments to be made subsequent to year end. These cash uses are offset by a significant cash source in the fiscal fourth quarter from the increase in sales during the holiday season.

Cash provided by financing activities was \$54.6 million for the thirteen weeks ended May 5, 2007. The primary source of cash of \$55.0 million was from borrowings under the Company's revolving credit facility.

The Company has a five year, \$150 million revolving secured credit agreement with Bank of America, N.A that expires in January 2011. The revolving credit facility contains provisions governing additional indebtedness and acquisitions and is secured by the assets of the Company. The Company anticipates the amount of the revolving credit facility being fully available to the Company through its term, and does not anticipate any difficulty in obtaining a similar, replacement facility upon its expiration. As of May 5, 2007, the Company had borrowed \$55.0 million, under the revolving credit facility, had \$0 in outstanding letter of credit obligations under the revolving credit facility and \$95.0 million was available for borrowing.

Capital Resources. During the thirteen weeks ended May 5, 2007, the Company made capital expenditures of \$3.6 million. The Company plans to spend approximately \$35 million for capital expenditures in 2007.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
PART I – FINANCIAL INFORMATION

Item 3 - Quantitative and Qualitative Disclosures about Market Risk

To the extent the Company borrows under its revolving credit facility, the Company is subject to risk resulting from interest rate fluctuations since interest on the Company's borrowings under its revolving credit facility can be variable. Interest on the revolving credit facility is payable monthly in arrears at a variable rate of either the prime rate or LIBOR plus 0.75% . 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. For a discussion of the Company's accounting policies for financial instruments and further disclosures relating to financial instruments, see "Nature of Operations and Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended February 3, 2007. The Company does not hold any derivative instruments and does not engage in hedging activities.

Item 4 – Controls and Procedures

(a) Evaluation of disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of May 5, 2007, have concluded that as of such date the Company's disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to the Company and its subsidiaries would be made known to such officers on a timely basis.

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

PART II - OTHER INFORMATION

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

Risks relating to the Company’s business and Common Stock are described in detail in Item 1A of the Company’s most recently filed Annual Report on Form 10-K for the year ended February 3, 2007.

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

None.

Item 6 - Exhibits

(A) Exhibits -

| <u>Exhibit No.</u> | <u>Description</u> |
|---------------------------|--|
| 31.1 | Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRANS WORLD ENTERTAINMENT CORPORATION

June 14, 2007

By: /s/ ROBERT J. HIGGINS

Robert J. Higgins
Chairman and Chief Executive Officer
(Principal Executive Officer)

June 14, 2007

By: /s/ JOHN J. SULLIVAN

John J. Sullivan
Executive Vice President and Chief Financial Officer (Principal Financial
and Chief Accounting Officer)

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

I, Robert J. Higgins, Chairman and Chief Executive Officer of Trans World Entertainment Corporation (the "Company"), certify that:

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

Dated: June 14, 2007

/s/ Robert J. Higgins
Chairman and Chief Executive Officer
Trans World Entertainment Corporation

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

I, John J. Sullivan, Executive Vice President and Chief Financial Officer of Trans World Entertainment Corporation (the "Company"), certify that:

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

Dated: June 14, 2007

/s/ John J. Sullivan
Executive Vice President and Chief Financial
Officer
Trans World Entertainment Corporation

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Trans World Entertainment Corporation (the "Company") on Form 10-Q for the period ending May 5, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Robert J. Higgins, Chairman and Chief Executive Officer of the Company and John J. Sullivan, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

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

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

/s/John J. Sullivan
Executive Vice President and
Chief Financial Officer

June 14, 2007

June 14, 2007
