

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended November 2, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
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 No.
38 Corporate Circle Albany, New York	12203
Address of Principal Executive Offices	Zip Code

(518) 452-1242

Registrant's Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.01 par value per share	TWMC	NASDAQ Stock Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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,
1,816,311 shares outstanding as of December 13, 2019

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
INDEX TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	November 2, 2019	February 2, 2019	November 3, 2018
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 3,073	\$ 4,355	\$ 4,497
Restricted cash	950	4,126	4,122
Accounts receivable	4,284	5,383	5,659
Merchandise inventory	101,130	94,842	131,285
Prepaid expenses and other assets	4,719	6,657	9,227
Total current assets	<u>114,156</u>	<u>115,363</u>	<u>154,790</u>
Restricted cash	5,139	5,745	5,944
Fixed assets, net	4,987	7,529	12,177
Operating lease right-of-use assets	8,978	—	—
Goodwill	—	—	39,191
Intangible assets, net	2,810	3,668	21,052
Other assets	5,410	5,708	5,907
TOTAL ASSETS	<u><u>141,480</u></u>	<u><u>138,013</u></u>	<u><u>239,061</u></u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 29,994	\$ 34,329	\$ 42,272
Short-term borrowings	27,771	—	27,440
Accrued expenses and other current liabilities	5,584	8,132	8,624
Deferred revenue	5,989	6,955	6,454
Current portion of operating lease liabilities	9,440	—	—
Total current liabilities	<u>78,778</u>	<u>49,416</u>	<u>84,790</u>
Operating lease liabilities	16,227	—	—
Other long-term liabilities	21,600	24,867	25,853
TOTAL LIABILITIES	<u><u>116,605</u></u>	<u><u>74,283</u></u>	<u><u>110,643</u></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; 3,225,627, 3,221,834 and 3,221,834 shares issued, respectively)	32	32	32
Additional paid-in capital	345,043	344,826	344,123
Treasury stock at cost (1,409,316, 1,408,892 and 1,408,043 shares, respectively)	(230,168)	(230,166)	(230,167)
Accumulated other comprehensive loss	(720)	(735)	(1,013)
(Accumulated deficit) Retained earnings	(89,312)	(50,227)	15,443
TOTAL SHAREHOLDERS' EQUITY	<u>24,875</u>	<u>63,730</u>	<u>128,418</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 141,480</u></u>	<u><u>\$ 138,013</u></u>	<u><u>\$ 239,061</u></u>

See Accompanying Notes to Interim Condensed Consolidated Financial Statements.

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

	<u>Thirteen Weeks Ended</u>		<u>Thirty-nine Weeks Ended</u>	
	<u>November 2, 2019</u>	<u>November 3, 2018</u>	<u>November 2, 2019</u>	<u>November 3, 2018</u>
Net sales	\$ 68,592	\$ 90,877	\$ 223,100	\$ 287,148
Other revenue	864	1,107	2,510	3,613
Total revenue	<u>69,456</u>	<u>91,984</u>	<u>225,610</u>	<u>290,761</u>
Cost of sales	<u>46,377</u>	<u>64,598</u>	<u>152,025</u>	<u>199,514</u>
Gross profit	23,079	27,386	73,585	91,247
Selling, general and administrative expenses	29,921	41,140	95,470	122,550
Asset impairment charges	16,035	—	16,035	—
Loss from operations	<u>(22,877)</u>	<u>(13,754)</u>	<u>(37,920)</u>	<u>(31,303)</u>
Interest expense	228	277	554	444
Other (income) loss	<u>(30)</u>	<u>(43)</u>	<u>388</u>	<u>(171)</u>
Loss before income tax expense	(23,075)	(13,988)	(38,862)	(31,576)
Income tax expense	80	64	223	136
Net loss	<u>\$ (23,155)</u>	<u>\$ (14,052)</u>	<u>\$ (39,085)</u>	<u>\$ (31,712)</u>
BASIC AND DILUTED LOSS PER SHARE:				
Basic and diluted loss per common share	<u>\$ (12.73)</u>	<u>\$ (7.74)</u>	<u>\$ (21.51)</u>	<u>\$ (17.48)</u>
Weighted average number of common shares outstanding – basic and diluted	<u>1,819</u>	<u>1,815</u>	<u>1,817</u>	<u>1,814</u>

See Accompanying Notes to Interim Condensed Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(unaudited)

	<u>Thirteen Weeks ended</u>		<u>Thirty-nine Weeks Ended</u>	
	<u>November 2, 2019</u>	<u>November 3, 2018</u>	<u>November 2, 2019</u>	<u>November 3, 2018</u>
Net loss	\$ (23,155)	\$ (14,052)	\$ (39,085)	\$ (31,712)
Amortization of pension gain	5	5	15	15
Comprehensive loss	<u>\$ (23,150)</u>	<u>\$ (14,047)</u>	<u>\$ (39,070)</u>	<u>\$ (31,697)</u>

See Accompanying Notes to Interim Condensed Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(dollars and shares in thousands)

Thirteen Weeks Ended November 2, 2019

	<i>Number of shares outstanding</i>		Common Stock	Additional Paid-in Capital	Treasury Stock At Cost	Accumulated Other Comprehensive Loss	Accumulated Deficit	Shareholders' Equity
	<i>Common Shares</i>	<i>Treasury Shares</i>						
Balance as of August 3, 2019	3,224	(1,409)	\$ 32	\$ 344,983	\$ (230,168)	\$ (725)	\$ (66,157)	\$ 47,965
Net Loss	—	—	—	—	—	—	(23,155)	(23,155)
Other comprehensive income	—	—	—	—	—	5	—	5
Vested restricted shares	2	—	—	—	—	—	—	—
Amortization of unearned compensation/restricted stock amortization	—	—	—	60	—	—	—	60
Balance as of November 2, 2019	3,226	(1,409)	\$ 32	\$ 345,043	\$ (230,168)	\$ (720)	\$ (89,312)	\$ 24,875

Thirty-nine Weeks Ended November 2, 2019

	<i>Number of shares outstanding</i>		Common Stock	Additional Paid-in Capital	Treasury Stock At Cost	Accumulated Other Comprehensive Loss	Accumulated Deficit	Shareholders' Equity
	<i>Common Shares</i>	<i>Treasury Shares</i>						
Balance as of February 2, 2019	3,222	(1,409)	\$ 32	\$ 344,826	\$ (230,166)	\$ (735)	\$ (50,227)	\$ 63,730
Net Loss	—	—	—	—	—	—	(39,085)	(39,085)
Other comprehensive income	—	—	—	—	—	15	—	15
Vested restricted shares	4	—	—	3	(2)	—	—	1
Amortization of unearned compensation/restricted stock amortization	—	—	—	214	—	—	—	214
Balance as of November 2, 2019	3,226	(1,409)	\$ 32	\$ 345,043	\$ (230,168)	\$ (720)	\$ (89,312)	\$ 24,875

Thirteen Weeks Ended November 3, 2018

	<i>Number of shares outstanding</i>		Common Stock	Additional Paid-in Capital	Treasury Stock At Cost	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulaed Deficit)	Shareholders' Equity
	<i>Common Shares</i>	<i>Treasury Shares</i>						
Balance as of August 4, 2018	3,219	(1,408)	\$ 32	\$ 343,322	\$ (230,149)	\$ (1,008)	\$ 29,495	\$ 141,692
Net Loss	—	—	—	—	—	—	(14,052)	(14,052)
Other comprehensive loss	—	—	—	—	—	(5)	—	(5)
Vested restricted shares	3	—	—	3	(18)	—	—	(15)
Amortization of unearned compensation/restricted stock amortization	—	—	—	798	—	—	—	798
Balance as of November 3, 2018	3,222	(1,408)	\$ 32	\$ 344,123	\$ (230,167)	\$ (1,013)	\$ 15,443	\$ 128,418

Thirty-nine Weeks Ended November 3, 2018

	<i>Number of shares outstanding</i>		Common Stock	Additional Paid-in Capital	Treasury Stock At Cost	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulaed Deficit)	Shareholders' Equity
	<i>Common Shares</i>	<i>Treasury Shares</i>						
Balance as of February 3, 2018	3,215	(1,408)	\$ 32	\$ 341,714	\$ (230,145)	\$ (998)	\$ 47,611	\$ 158,214
Adjustment for adoption of accounting standard, ASU 2014-09	—	—	—	—	—	—	(456)	(456)
Net Loss	—	—	—	—	—	—	(31,712)	(31,712)
Other comprehensive loss	—	—	—	—	—	(15)	—	(15)
Vested restricted shares	4	—	—	9	(22)	—	—	(13)
Common stock issued-new grants	3	—	—	75	—	—	—	75
Amortization of unearned compensation/restricted stock amortization	—	—	—	2,325	—	—	—	2,325
Balance as of November 3, 2018	3,222	(1,408)	\$ 32	\$ 344,123	\$ (230,167)	\$ (1,013)	\$ 15,443	\$ 128,418

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	Thirty-nine Weeks Ended	
	November 2, 2019	November 3, 2018
OPERATING ACTIVITIES:		
Net loss	\$ (39,085)	\$ (31,712)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of fixed assets	2,272	3,893
Amortization of intangible assets	858	2,915
Amortization of right-of-use assets	6,171	—
Stock-based compensation	214	2,387
Write down of investment	500	—
Adjustment to contingent consideration	—	(272)
Loss on disposal of fixed assets	27	327
Loss on impairment of long lived assets	16,035	—
Change in cash surrender value	(189)	90
Changes in operating assets and liabilities that provide (use) cash:		
Accounts receivable	1,099	(1,190)
Merchandise inventory	(6,288)	(21,908)
Prepaid expenses and other current assets	1,190	(2,251)
Other long-term assets	(129)	(163)
Accounts payable	(4,335)	492
Accrued expenses and other current liabilities	(852)	(642)
Deferred revenue	(966)	(2,010)
Other long-term liabilities	(7,344)	(3,293)
Net cash used in operating activities	<u>(30,822)</u>	<u>(53,337)</u>
INVESTING ACTIVITIES:		
Purchases of fixed assets	(2,128)	(2,851)
Capital distributions from joint venture	115	1,305
Net cash used in investing activities	<u>(2,013)</u>	<u>(1,546)</u>
FINANCING ACTIVITIES:		
Proceeds from short term borrowings	27,771	27,440
Payments to etailz shareholders	—	(1,500)
Net cash provided by financing activities	<u>27,771</u>	<u>25,940</u>
Net decrease in cash, cash equivalents, and restricted cash	(5,064)	(28,943)
Cash, cash equivalents, and restricted cash, beginning of period	14,226	43,506
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 9,162</u>	<u>\$ 14,563</u>

See Accompanying Notes to Interim Condensed Consolidated Financial Statements.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
November 2, 2019 and November 3, 2018

Note 1. Nature of Operations

Trans World Entertainment Corporation and subsidiaries (“the Company”) operates in two reportable segments: fye and etailz. The fye segment operates a chain of retail entertainment stores and e-commerce sites, www.fye.com and www.secondspin.com. As of November 2, 2019, the fye segment operated 206 stores totaling approximately 1.1 million square feet in the United States, the District of Columbia and the U.S. Virgin Islands. The etailz segment is a digital marketplace retailer and generates substantially all of its revenue through Amazon Marketplace. The Company’s business is seasonal in nature for both segments, with the peak selling period being the holiday season which falls in the Company’s fourth fiscal quarter.

Liquidity and Cash Flows Considerations:

The unaudited condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 2, 2019 were prepared on the basis of a going concern which contemplates that the Company will be able to realize assets and satisfy liabilities and commitments in the normal course of business. The ability of the Company to meet its liabilities and to continue as a going concern is dependent on improved profitability, the continued implementation of the performance improvement plan for the etailz segment, the availability of future funding and the completion of other strategic alternatives. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Company incurred net losses of \$39.1 million and \$31.7 million for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively, and has an accumulated deficit of \$89.3 million at November 2, 2019. In addition, net cash used in operating activities for the thirty-nine weeks ended November 2, 2019 was \$30.8 million. Net cash used in operating activities for the thirty-nine weeks ended November 3, 2018 was \$53.3 million. The Company also experienced negative cash flows from operations during fiscal 2018 and 2017, and expects to incur net losses in the foreseeable future. Based on its recurring losses from operations, expectation of continuing operating losses for the foreseeable future, and uncertainty with respect to any available future funding, as well as the completion of other strategic alternatives, the Company has concluded that there is substantial doubt about the Company’s ability to continue as a going concern for a period of one year after the date of filing of this Quarterly Report on Form 10-Q.

Management has plans to address the Company’s current liquidity position. As disclosed in the Company’s Annual Report on Form 10-K filed May 14, 2019, the Company implemented strategic initiatives on December 11, 2018, aimed at improving organizational efficiencies and conserving working capital needed to support the growth of the etailz segment (the “performance improvement plan”). As a result of the initiative, and inventory management in the fye segment, the Company was able to reduce cash used in operations by \$22.5 million for the thirty-nine weeks ended November 2, 2019 as compared to the thirty-nine weeks ended November 2, 2018. We anticipate continued improvement in cash flows used in operations for the remainder of fiscal 2019. In addition, the Company continues to evaluate other strategic initiatives including establishing a credit facility at the etailz segment which could provide additional liquidity. At November 2, 2019, we had cash and cash equivalents of \$3.1 million, net working capital of \$35.4 million, short-term borrowings in the amount of \$27.8 million on our revolving credit facility and \$11.0 million of availability on our revolving credit facility. This compares to \$4.5 million in cash and cash equivalents, net working capital of \$70.0 million, short-term borrowings in the amount of \$27.4 million on the Company’s revolving credit facility at November 3, 2018, and \$22.1 million of availability on our revolving credit facility.

The Company’s primary sources of liquidity are its borrowing capacity under its revolving credit facility, available cash and cash equivalents, and to a lesser extent, cash generated from operations. Our cash requirements relate primarily to working capital needed to operate our business, including funding operating expenses, the purchase of inventory and capital expenditures. Our ability to achieve profitability and meet future liquidity needs and capital requirements will depend upon numerous factors, including the timing and amount of our revenue; the timing and amount of our operating expenses; the timing and costs of working capital needs; and in the implementation of our strategy and planned activities.

In addition to the aforementioned current sources of existing working capital, the Company is continuing its efforts to generate additional sales and increase margins. There can be no assurance that any of the initiatives or strategic alternatives described above will be implemented, successful or consummated.

Reverse Stock Split:

On August 15, 2019, the Company effected a reverse stock split of its outstanding shares of common stock at a ratio of one-for-twenty pursuant to a Certificate of Amendment to the Company's Certificate of Incorporation filed with the Secretary of State of the State of New York. The reverse stock split was reflected on the Nasdaq Capital Market ("Nasdaq") beginning with the opening of trading on August 15, 2019. The primary purpose of the reverse stock split, which was approved by the Company's stockholders at the Company's Annual Stockholders Meeting on June 27, 2019, was to enable the Company to regain compliance with the \$1.00 minimum bid price requirement for continued listing on Nasdaq. Pursuant to the reverse stock split, every twenty shares of the Company's issued and outstanding shares of common stock were automatically combined into one issued and outstanding share of common stock, without any change in the par value per share of the common stock. Unless otherwise indicated, all share and per share amounts of the common stock included in the accompanying interim condensed consolidated financial statements have been retrospectively adjusted to give effect to the reverse stock split for all periods presented, including reclassifying an amount equal to the reduction in par value to additional paid-in capital. Amounts of common stock resulting from the reverse stock split were rounded up to the nearest whole share. The reverse stock split affected all issued and outstanding shares of the Company's common stock, and the respective numbers of shares of common stock underlying outstanding stock options, and the Company's equity incentive plans were proportionately adjusted.

Asset Impairment Charges:

During the thirty nine weeks ended November 2, 2019, the Company concluded, based on continued operating losses within the fye segment driven by lower than expected third quarter sales that triggering events had occurred, and an evaluation of the fye long-lived assets for impairment was required. Fixed assets and operating lease right-of-use assets, primarily at the Company's retail store locations, as well as certain fixed assets at the corporate location, consisting of the home office and the Albany distribution center, where impairment was determined to exist were written down to their estimated fair values as of the end of November 2, 2019, resulting in the recording of fixed assets and operating lease right-of-use assets impairment charges of \$2.4 million and \$13.6 million, respectively. Estimated fair values for long-lived assets at these locations, including operating lease right of use assets, store fixtures, equipment, and leasehold improvements were determined based on a measure of discounted future cash flows over the remaining lease terms at the respective locations. Future cash flows were estimated based on individual store and corporate level plans and were discounted at a rate approximating the Company's cost of capital. Management believes its assumptions were reasonable and consistently applied.

Note 2. Basis of Presentation

The accompanying interim condensed consolidated financial statements consist of Trans World Entertainment Corporation, Record Town, Inc. ("Record Town"), Record Town's subsidiaries and etailz, Inc., all of which are wholly-owned. All 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 interim 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 (“U.S. GAAP”) 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 accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto as of and for the year ended February 2, 2019 contained in the Company’s Annual Report on Form 10-K filed May 14, 2019.

The results of operations for the thirteen and thirty-nine weeks ended November 2, 2019 are not necessarily indicative of the results to be expected for the entire fiscal year ending February 1, 2020.

As goodwill was fully impaired during fiscal 2018, the Company no longer considers goodwill to be a significant accounting policy. With the exception of goodwill, 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 2, 2019.

Note 3. Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU 2016-02, Leases (Topic 842). Lessees are required to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability is equal to the present value of lease payments. The asset is based on the liability, subject to certain adjustments, such as for initial direct costs. For income statement purposes, a dual model was retained, requiring leases to be classified as either operating or finance leases. Operating leases result in straight-line expense (similar to operating leases under the prior accounting standard) while finance leases result in a frontloaded expense pattern (similar to capital leases under the prior accounting standard).

The Company adopted this new accounting standard on February 3, 2019 on a modified retrospective basis and applied the new standard to all leases greater than one year. As a result, comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which includes, among other things, the ability to carry forward the existing lease classification. The Company does not engage in any Lessor transactions, and as a Lessee, the Company does not have any finance leases. As a result, the new standard had a material impact on the unaudited condensed consolidated balance sheet, but did not materially impact the Company’s consolidated operating results and did not materially impact the Company’s cash flows.

The following is a discussion of the Company’s lease policy under the new lease accounting standard:

The Company determines if an arrangement contains a lease at the inception of a contract. Right-of-use assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of the remaining future minimum lease payments. As the interest rate implicit in the Company’s leases is not readily determinable, the Company utilizes its incremental borrowing rate to discount the lease payments. The operating lease right-of-use assets also include lease payments made before commencement and reduced by lease incentives. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet and lease expense is recognized on a straight-line basis over the term of the short-term lease.

For real estate leases, the Company accounts for lease components and non-lease components as a single lease component. Certain real estate leases require additional payments based on reimbursement for real estate taxes, common area maintenance and insurance, which are expensed as incurred as variable lease costs. Other real estate leases contain one fixed lease payment that includes real estate taxes, common area maintenance and insurance. These fixed payments are considered part of the lease payment and included in the right-of-use assets and lease liabilities.

We elected the following package of practical expedients permitted under the lease standard: We do not record leases with an initial term of 12 months or less on the balance sheet but continue to expense them on a straight-line basis over the lease term. As of November 2, 2019, 153 leases were short-term in nature and were exempt from being recorded on the balance sheet.

The Company leases its 181,300 square foot distribution center/office facility in Albany, New York from an entity controlled by the estate of Robert J. Higgins, its former Chairman and largest shareholder. The distribution center/office lease commenced on January 1, 2016, and expires on December 31, 2020. Under the lease, accounted for as an operating lease, the Company is responsible for monthly payments in the amount of \$103 thousand per month. Under the terms of the lease agreement, the Company is also responsible for property taxes and other operating costs with respect to the premises.

During the thirty nine weeks ended November 2, 2019, the Company concluded, based on continued operating losses within the fye segment driven by lower than expected third quarter sales that triggering events had occurred, and an evaluation of the fye operating lease right-of-use asset for impairment was required. Operating lease right-of-use assets, primarily at the Company's retail store locations, where impairment was determined to exist were written down to their estimated fair values as of the end of November 2, 2019, resulting in the recording of asset impairment charges of \$13.7 million. Estimated fair values at these locations were determined based on a measure of discounted future cash flows over the remaining lease terms at the respective locations. Future cash flows were estimated based on individual store and corporate level plans and were discounted at a rate approximating the Company's cost of capital. Management believes its assumptions were reasonable and consistently applied.

Impact of New Lease Standard on Balance Sheet Line Items

As a result of applying the new lease standard using a modified retrospective method, the following adjustments were made to accounts on the condensed consolidated balance sheet as of February 3, 2019:

	Impact of Change in Accounting Policy		
	As Reported February 2, 2019	Adjustments	Adjusted February 3, 2019
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 4,355	\$ —	\$ 4,355
Restricted cash	4,126	—	4,126
Accounts receivable	5,383	—	5,383
Merchandise inventory	94,842	—	94,842
Prepaid expenses and other current assets	6,657	(748)	5,909
Total current assets	115,363	(748)	114,615
Restricted cash	5,745	—	5,745
Fixed assets, net	7,529	—	7,529
Operating lease right-of-use assets	—	28,044	28,044
Intangible assets, net	3,668	—	3,668
Other assets	5,708	—	5,708
TOTAL ASSETS	\$ 138,013	\$ 27,296	\$ 165,309
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 34,329	\$ —	\$ 34,329
Accrued expenses and other current liabilities	8,132	(1,319)	6,813
Deferred revenue	6,955	—	6,955
Current portion of operating lease liabilities	—	9,064	9,064
Total current liabilities	49,416	7,745	57,161
Operating lease liabilities	—	22,728	22,728
Other long-term liabilities	24,867	(3,177)	21,690
TOTAL LIABILITIES	74,283	27,296	101,579
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; 3,221,834 shares issued)	32	—	32
Additional paid-in capital	344,826	—	344,826
Treasury stock at cost (1,408,892 shares)	(230,166)	—	(230,166)
Accumulated other comprehensive loss	(735)	—	(735)
Accumulated deficit	(50,227)	—	(50,227)
TOTAL SHAREHOLDERS' EQUITY	63,730	—	63,730
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 138,013	\$ 27,296	\$ 165,309

The following table is a summary of the Company's components of net lease cost for the thirteen and thirty-nine week periods ended November 2, 2019:

Lease Cost

<i>(amounts in thousands)</i>	Classification	Thirteen Weeks Ended November 2, 2019	Thirty-nine Weeks Ended November 2, 2019
Short-term operating lease cost	SG&A	\$ 4,838	\$ 10,043
Operating lease cost	SG&A	1,753	7,013
Variable lease cost	SG&A	127	369
Net lease cost		\$ 6,718	\$ 17,425

During the thirteen and thirty-nine weeks ended November 3, 2018, the Company recorded minimum rentals of \$7.2 million and \$21.9 million, respectively, and did not record any contingent rentals.

As of November 2, 2019, the maturity of lease liabilities is as follows:

<i>(amounts in thousands)</i>	Operating Leases
2019	\$ 2,656
2020	10,502
2021	7,312
2022	3,181
2023	2,278
Thereafter	2,116
Total lease payments	28,045
Less: amounts representing interest	(2,378)
Present value of lease liabilities	\$ 25,667

Lease term and discount rate are as follows:

	November 2, 2019
Weighted-average remaining lease term (years)	
Operating leases	1.06
Weighted-average discount rate	
Operating leases	5%

Other information:

<i>(amounts in thousands)</i>	Thirty-nine Weeks Ended November 2, 2019
Cash paid for amounts included in the measurement of operating lease liabilities	
Operating cash flows from operating leases	\$ 6,582

As determined prior to the adoption of the new lease standard, the future minimum lease payments under operating leases in effect as of February 2, 2019 were as follows:

<i>(amounts in thousands)</i>	
2019	\$ 24,426
2020	8,393
2021	5,239
2022	1,881
2023	1,137
Thereafter	1,060
Total minimum lease payments	\$ 42,136

Note 4. Intangible Assets

The determination of the fair value of intangible assets acquired in a business acquisition, including the Company's acquisition of etailz in 2016, is subject to many estimates and assumptions. Our identifiable intangible assets that resulted from our acquisition of etailz consisted of vendor relationships, technology and tradenames. We review amortizable intangible asset groups for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

During fiscal 2018, the Company concluded, based on continued operating losses for the etailz segment driven by lower than expected operating results culminating in the fourth quarter of fiscal 2018 that a triggering event had occurred, and an evaluation of intangible assets for impairment was required. Intangible assets related to technology and vendor relationships were written down to their estimated fair value at the end of fiscal 2018 resulting in the recognition of asset impairment charges of \$16.4 million.

Identifiable intangible assets as of November 2, 2019 consisted of the following:

(amounts in thousands)	November 2, 2019				
	Weighted Average Amortization Period (in months)	Original Gross Carrying Amount	Accumulated Impairment	Accumulated Amortization	Net Carrying Amount
Vendor relationships	120	\$ 19,100	\$ 13,822	\$ 4,485	\$ 793
Technology	60	6,700	2,587	3,369	744
Trade names and trademarks	60	3,200	—	1,927	1,273
		<u>\$ 29,000</u>	<u>\$ 16,409</u>	<u>\$ 9,781</u>	<u>\$ 2,810</u>

The changes in net intangibles from February 2, 2019 to November 2, 2019 were as follows:

(amounts in thousands)	February 2, 2019	Impairment Expense	Amortization Expense	November 2, 2019
Amortized intangible assets:				
Vendor relationships	\$ 880	\$ —	\$ 87	\$ 793
Technology	1,035	—	291	744
Trade names and trademarks	1,753	—	480	1,273
Net amortized intangible assets	<u>\$ 3,668</u>	<u>\$ —</u>	<u>\$ 858</u>	<u>\$ 2,810</u>

Amortization expense of intangible assets for the thirteen and thirty-nine weeks ended November 2, 2019 and November 3, 2018 consisted of the following:

(amounts in thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Amortized intangible assets:				
Vendor relationships	\$ 29	\$ 477	\$ 87	\$ 1,430
Technology	97	335	291	1,005
Trade names and trademarks	160	160	480	480
Total amortization expense	<u>\$ 286</u>	<u>\$ 972</u>	<u>\$ 858</u>	<u>\$ 2,915</u>

Estimated amortization expense for the remainder of fiscal 2019 and the five succeeding fiscal years and thereafter is as follows:

Year	Annual Amortization
(amounts in thousands)	
2019	\$286
2020	1,143
2021	847
2022	115
2023	115
2024	115
Thereafter	189

Note 5. Depreciation and Amortization

Depreciation and amortization included in selling, general and administrative expenses of the interim condensed consolidated statements of operations for the thirteen weeks ended November 2, 2019 and November 3, 2018 was \$1.1 million and \$2.3 million, respectively. Depreciation and amortization included in selling, general and administrative expenses of the interim condensed consolidated statements of operations for the thirty-nine weeks ended November 2, 2019 and November 3, 2018 was \$3.1 million and \$6.8 million, respectively. The decrease was primarily due to a \$4.1 million net decrease in carrying value of fixed assets and a \$16.4 million net decrease in carrying value of intangible assets, resulting from impairment charges recorded during the fourth quarter of fiscal 2018. For a discussion of the Company's impairment charges, 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 as of and for the year ended February 2, 2019.

As noted within Footnote 1, the Company recorded \$2.4 million in fixed asset impairment during the third fiscal quarter of 2019.

Note 6. Segment Data

As described in Note 1 to the interim condensed consolidated financial statements, we operate in two reportable segments as shown in the following table:

(amounts in thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended		
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018	
Total Revenue					
fye	\$ 40,840	\$ 47,865	\$ 127,602	\$ 152,473	
etailz	28,616	44,119	98,008	138,288	
Total Company	<u>\$ 69,456</u>	<u>\$ 91,984</u>	<u>\$ 225,610</u>	<u>\$ 290,761</u>	
Gross Profit					
fye	\$ 16,155	\$ 18,276	\$ 50,670	\$ 61,181	
etailz	6,924	9,110	22,915	30,066	
Total Company	<u>\$ 23,079</u>	<u>\$ 27,386</u>	<u>\$ 73,585</u>	<u>\$ 91,247</u>	
Loss From Operations					
fye	\$ (21,524)	\$ (9,493)	\$ (34,280)	\$ (21,495)	
etailz	(1,353)	(4,261)	(3,640)	(9,808)	
Total Company	<u>\$ (22,877)</u>	<u>\$ (13,754)</u>	<u>\$ (37,920)</u>	<u>\$ (31,303)</u>	
Total Assets			November 2, 2019	February 2, 2019	November 3, 2018
fye			\$ 107,707	\$ 101,785	\$ 132,699
etailz			33,773	36,228	106,362
Total Company			<u>\$ 141,480</u>	<u>\$ 138,013</u>	<u>\$ 239,061</u>

Note 7. Restricted Cash

As of November 2, 2019, the Company had restricted cash of \$1.0 million and \$5.1 million reported in current assets and other assets on the accompanying condensed consolidated balance sheet, respectively. As of November 3, 2018, the Company had restricted cash of \$4.1 million and \$5.9 million reported in current assets and other assets on the accompanying condensed consolidated balance sheet, respectively. The decrease in these restricted cash balances during the thirty-nine weeks ended November 2, 2019, was primarily due to the return of the \$3.2 million earn-out escrow balance to the Company as a result of the etailz segment not achieving the earnings target, as described in the amended etailz acquisition share purchase agreement.

The restricted cash reported as of November 2, 2019 is comprised entirely of a \$6.1 million rabbi trust, which is restricted for SERP payments as described in note 11.

A summary of cash, cash equivalents and restricted cash is as follows (amounts in thousands):

	November 2, 2019	February 2, 2019	November 3, 2018
Cash and cash equivalents	\$ 3,073	\$ 4,355	\$ 4,497
Restricted cash	6,089	9,871	10,066
Total cash, cash equivalents and restricted cash	<u>\$ 9,162</u>	<u>\$ 14,226</u>	<u>\$ 14,563</u>

Note 8. Short Term Borrowings

In January 2017, the Company amended and restated its revolving credit facility (“Credit Facility”). The Credit Facility provides for commitments of \$50 million subject to increase up to \$75 million during the months of October to December of each year, as needed. The availability under the Credit Facility is subject to limitations based on receivables and inventory levels. The principal amount of all outstanding loans under the Credit Facility together with any accrued but unpaid interest, are due and payable in January 2022, 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 contains customary affirmative and negative covenants, including incurrence of additional indebtedness and acquisitions and covenants around the net number of store closings and restrictions related to the payment of cash dividends and share repurchases, 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.

The Credit Facility also includes customary events of default, including, among other things, material adverse effect, bankruptcy, and certain changes of control. On December 17, 2019, the Company entered into a letter agreement with Wells Fargo in accordance with the Credit Facility in which Wells Fargo provided consent to the Company with respect to late delivery of the Quarterly Financial Statements. As of November 2, 2019, the Company was 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 1.75% to 2.00% and the Applicable Margin for Prime Rate loans ranging from 0.75% to 1.00%. In addition, a fee of 0.25% is also payable on unused commitments.

As of November 2, 2019, borrowings under the Credit Facility were \$27.8 million as compared to \$27.4 million as of November 3, 2018. The Company had \$11.0 million available for borrowing as of November 2, 2019. As of November 2, 2019 and November 3, 2018, the Company did not have any outstanding letters of credit. The Company records short term borrowings at cost, in which the carrying value approximates fair value due to its short term maturity.

Note 9. Stock Based Compensation

As of November 2, 2019, there was approximately \$338 thousand of unrecognized compensation cost related to stock option awards comprised of the following: \$245 thousand was related to stock option awards listed in the table below and expected to be recognized as expense over a weighted average period of 1.4 years, and \$94 thousand was related to restricted stock option awards expected to be recognized as expense over a weighted average period of 2.9 years.

The Company has outstanding awards under three employee stock award plans, the 2005 Long Term Incentive and Share Award Plan, the Amended and Restated 2005 Long Term Incentive and Share Award Plan (the “Old Plans”); and the 2005 Long Term Incentive and Share Award Plan (as amended and restated April 5, 2017 (the “New Plan”). Collectively, these

plans are referred to herein as the Stock Award Plans. 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 or the 1990 Plan.

Equity awards authorized for issuance under the New Plan total 250 thousand. As of November 2, 2019, of the awards authorized for issuance under the Stock Award Plans, approximately 129 thousand were granted and are outstanding, 99 thousand of which were vested and exercisable. Shares available for future grants of options and other share based awards under the New Plan at November 2, 2019 were 213 thousand.

The following table summarizes stock award activity during the thirty-nine weeks ended November 2, 2019:

Employee and Director Stock Award Plans					
	Number of Shares Subject To Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Other Share Awards ⁽¹⁾	Weighted Average Grant Fair Value/ Exercise Price
Balance February 2, 2019	138,921	\$ 55.00	5.8	13,571	\$ 33.60
Granted	5,750	3.76	—	—	—
Cancelled/Forfeited	(15,475)	57.68	—	—	—
Exercised	—	—	—	(3,626)	5.66
Balance November 2, 2019	129,196	\$ 52.11	6.1	9,945	\$ 36.75
Exercisable November 2, 2019	99,040	\$ 59.29	5.4	5,757	\$ 44.92

(1) Other Share Awards include deferred shares granted to Directors and restricted share units granted to executive officers.

As of November 2, 2019, all stock awards outstanding and exercisable had a grant price higher than the market price of the stock and had no intrinsic value.

Note 10. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss that the Company reports in the condensed consolidated balance sheets represents net loss, adjusted for the difference between the accrued pension liability and accrued benefit cost, net of taxes, associated with the Company's defined benefit plan. Comprehensive loss consists of net loss and the amortization of pension costs associated with Company's defined benefit plan for the thirteen and thirty-nine weeks ended November 2, 2019 and November 3, 2018.

Note 11. Defined Benefit Plan

The Company maintains a non-qualified Supplemental Executive Retirement Plan ("SERP") for a limited number of executive officers of the Company. The SERP provides eligible executives defined pension benefits that supplement benefits under other retirement arrangements. During the thirty-nine weeks ended November 2, 2019, the Company did not make any cash contributions to the SERP and paid out approximately \$0.9 million in retirement benefits. The Company presently expects to pay approximately \$1.2 million in benefits relating to the SERP during fiscal 2019.

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

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

(amounts in thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Service cost	\$ 14	\$ 14	\$ 42	\$ 42
Interest cost	142	140	426	420
Amortization of net gain ⁽¹⁾	(5)	(5)	(15)	(15)
Net periodic pension cost	<u>\$ 151</u>	<u>\$ 149</u>	<u>\$ 453</u>	<u>\$ 447</u>

(1) The amortization of net gain is related to a director retirement plan previously provided by the Company.

Note 12. Basic and Diluted Loss Per Share

Basic loss per share is calculated by dividing net loss by the weighted average common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock (net of any assumed repurchases) that then shared in the earnings of the Company, if any. It is computed by dividing net loss by the sum of the weighted average shares outstanding and additional common shares that would have been outstanding if the dilutive potential common shares had been issued for the Company's common stock awards from the Company's Stock Award Plans.

For the thirteen and thirty-nine week periods ended November 2, 2019 and November 3, 2018, the impact of all outstanding stock awards was not considered because the Company reported a net loss and such impact would be anti-dilutive. Accordingly, basic and diluted loss per share is the same. Total anti-dilutive stock awards for the thirteen and thirty-nine weeks ended November 2, 2019 were approximately 126 thousand shares and 132 thousand shares, as compared to 157 thousand shares and 148 thousand shares, respectively, for the thirteen and thirty-nine weeks ended November 3, 2018. See note 1 in the interim condensed consolidated financial statements for information on the reverse stock split effected by the Company in August of the current fiscal year.

Note 13. Income Taxes

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income. Management considers the scheduled reversal of taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. Based on available objective evidence, management concluded that a full valuation allowance should continue to be recorded against the Company's deferred tax assets. Management will continue to assess the need for and amount of the valuation allowance against the deferred tax assets by giving consideration to all available evidence to the Company's ability to generate future taxable income in its conclusion of the need for a full valuation allowance. Any reversal of the Company's valuation allowance will favorably impact its results of operations in the period of reversal. The Company is currently unable to determine whether or when that reversal might occur, but it will continue to assess the realizability of its deferred tax assets and will adjust the valuation allowance if it is more likely than not that all or a portion of the deferred tax assets will become realizable in the future. The Company has significant net operating loss carry forwards and other tax attributes that are available to offset projected taxable income and current taxes payable, if any, for the year ending February 1, 2020. The deferred tax impact resulting from the utilization of the net operating loss carry forwards and other tax attributes will be offset by a reduction in the valuation allowance. As of November 2, 2019, the Company had a net operating loss carry forward of \$246.9 million for federal income tax purposes and approximately \$265.2 million for state income tax purposes that expire at various times through 2038 and are subject to certain limitations and statutory expiration periods. The Company has not changed its overall conclusion with respect to the need for a valuation allowance against its net deferred tax assets, which remain fully reserved.

Note 14. Commitments and Contingencies

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. As a result, the liability for the cases listed below is remote.

Loyalty Memberships and Magazine Subscriptions Class Action

On November 14, 2018, three consumers filed a punitive class action complaint against the Company and Synapse Group, Inc. in the United States District Court for the District of Massachusetts, Boston Division (Case No.1:18-cv-12377-DPW) concerning enrollment in the Company's Backstage Pass VIP loyalty program and associated magazine subscriptions. The complaint alleged, among other things, that the Company's "negative option marketing" misled consumers into enrolling for membership and subscriptions without obtaining the consumers' consent. The complaint sought to represent a nationwide class of "all persons in the United States" who were enrolled in and/or charged for Backstage Pass VIP memberships and/or magazine subscriptions, and to obtain statutory and actual damages on their behalf.

On April 11, 2019, the plaintiffs voluntarily dismissed their lawsuit. On May 8, 2019, two of the plaintiffs from the dismissed lawsuit filed a similar punitive class action in Massachusetts state court (Civ. Act. No. 197CV00331, Mass. Super. Ct. Hampden Cty.), based on the same allegations, but this time seeking to represent only a class of "FYE customers in Massachusetts" who were charged for VIP Backstage Pass Memberships and/or magazine subscriptions. The Company believes it has meritorious defenses to the plaintiffs' claims and, if the new case is not dismissed in full, the Company intends to vigorously defend the action.

Store Manager Class Actions

There are two pending class actions. The first, *Spack v. Trans World Entertainment Corp.* was originally filed in the District of New Jersey, April 2017 (the "Spack Action"). The Spack Action alleges that the Company misclassified Store Managers ("SMs") as exempt nationwide. It also alleges that Trans World improperly calculated overtime for Senior Assistant Managers "SAMs" nationwide, and that both SMs and SAMs worked "off-the-clock." It also alleges violations of New Jersey and Pennsylvania State Law with respect to calculating overtime for SAMs. The second, *Roper v. Trans World Entertainment Corp.*, was filed in the Northern District of New York, May 2017 (the "Roper Action"). The Roper Action also asserts a nationwide misclassification claim on behalf of Store Managers. Both actions were consolidated into the Northern District of New York, with the Spack Action being the lead case.

Plaintiffs moved for conditional certification of a collective of SMs in June 2018, and that motion was partially granted in January 2019. The opt-in period for the collective that was certified was closed on April 6, 2019. Opt-in discovery relating to that potential collective has commenced. The Company believes it has meritorious defenses to the plaintiffs' claims and intends to vigorously defend the action.

Note 15. Related Party Transactions

The Company leases its 181,300 square foot distribution center/office facility in Albany, New York from an entity controlled by the estate of Robert J. Higgins, its former Chairman and largest shareholder. The distribution center/office lease commenced on January 1, 2016, and expires on December 31, 2020. Under the lease accounted for as an operating lease, for the thirteen and thirty-nine week periods ended November 2, 2019 and November 3, 2018, the Company paid \$0.3 million and \$0.9 million, respectively, during both fiscal periods. Under the terms of the lease agreement, the Company is responsible for property taxes and other operating costs with respect to the premises.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
PART 1. FINANCIAL INFORMATION
Item 2 - Management's Discussion and Analysis of Financial Condition and
Results of Operations
November 2, 2019 and November 3, 2018

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, availability of new products, change in vendor policies or relationships, 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 interim condensed consolidated financial statements and related notes included elsewhere in this report and the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K as of and for the fiscal year ended February 2, 2019.

The Company operates in two reportable segments: fye and etailz. The fye segment operates a chain of retail entertainment stores and e-commerce sites, www.fye.com and www.secondspin.com. As of November 2, 2019, the fye segment operated 206 stores totaling approximately 1.1 million square feet in the United States, the District of Columbia and the U.S. Virgin Islands. The etailz segment is a digital marketplace retailer and generates substantially all of its revenue through Amazon Marketplace. The Company's business is seasonal in nature for both segments, with the peak selling period being the holiday season which falls in the Company's fourth fiscal quarter.

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

Net Sales and Comparable Store Net Sales: The fye segment 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 fye segment further analyzes net sales by store format and by product category. The etailz segment measures total year over year sales growth by product category and evaluates product sales by supplier.

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 & warehousing merchandise, Amazon fulfillment fees, 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. SG&A expenses also include fixed assets write-offs associated with store closures, if any, and miscellaneous income and expense items, other than interest.

Balance Sheet and Ratios: The Company views cash and working capital (current assets less current liabilities) as relevant indicators of its financial position. See Liquidity and Cash Flows section for further discussion of these items.

RESULTS OF OPERATIONS

Thirteen and Thirty-nine Weeks Ended November 2, 2019 Compared to the Thirteen and Thirty-nine Weeks Ended November 3, 2018

Segment Highlights (amounts in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Total Revenue				
fye	\$ 40,840	\$ 47,865	\$ 127,602	\$ 152,473
etailz	28,616	44,119	98,008	138,288
Total Company	<u>\$ 69,456</u>	<u>\$ 91,984</u>	<u>\$ 225,610</u>	<u>\$ 290,761</u>
Gross Profit				
fye	\$ 16,155	\$ 18,276	\$ 50,670	\$ 61,181
etailz	6,924	9,110	22,915	30,066
Total Company	<u>\$ 23,079</u>	<u>\$ 27,386</u>	<u>\$ 73,585</u>	<u>\$ 91,247</u>
Loss From Operations				
fye	\$ (21,524)	\$ (9,493)	\$ (34,280)	\$ (21,495)
etailz	(1,353)	(4,261)	(3,640)	(9,808)
Total Company	<u>\$ (22,877)</u>	<u>\$ (13,754)</u>	<u>\$ (37,920)</u>	<u>\$ (31,303)</u>
Reconciliation of etailz Loss from Operations to etailz Adjusted Loss from Operations				
etailz loss from operations	\$ (1,353)	\$ (4,261)	\$ (3,640)	\$ (9,808)
Acquisition related amortization and compensation expenses ⁽¹⁾	286	1,722	924	5,906
etailz adjusted loss from operations ⁽²⁾	<u>\$ (1,067)</u>	<u>\$ (2,539)</u>	<u>\$ (2,716)</u>	<u>\$ (3,902)</u>
Reconciliation of fye Loss From Operations to fye Adjusted Loss From Operations				
fye Loss From Operations	\$ (21,524)	\$ (9,493)	\$ (34,280)	\$ (21,495)
Asset impairment charges	16,035	—	16,035	—
fye Adjusted Loss From Operations ⁽²⁾	<u>\$ (5,489)</u>	<u>\$ (9,493)</u>	<u>\$ (18,245)</u>	<u>\$ (21,495)</u>

⁽¹⁾ For the 13 weeks ended November 2, 2019, acquisition related expenses consisted of amortization expense of intangible assets of \$286 thousand. For the 39 weeks ended November 2, 2019, acquisition related expenses consisted of amortization expense of intangible assets of \$858 thousand and compensation expense of \$66 thousand. For the 13 weeks ended November 3, 2018, acquisition related expenses consisted of amortization expense of intangible assets of \$972 thousand and compensation expense of \$750 thousand. For the 39 weeks ended November 3, 2018, acquisition related expenses consisted of amortization expense of intangible assets of \$2,915 thousand and compensation expense of \$2,991 thousand.

⁽²⁾ In addition to the results of operations determined in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), we reported non-GAAP adjusted operating loss for the etailz and the fye segments as shown above.

Total Revenue. The following table sets forth a year-over-year comparison of the Company's total revenue:

	Thirteen Weeks Ended		Change		Comp Store Net Sales	Thirty-nine Weeks Ended		Change		Comp Store Net Sales
	November 2, 2019	November 3, 2018	\$	%		November 2, 2019	November 3, 2018	\$	%	
(amounts in thousands)										
fye revenue	\$ 40,840	\$ 47,865	\$ (7,025)	-14.7%	-5.2%	\$ 127,602	\$ 152,473	\$ (24,871)	-16.3%	-2.1%
etailz revenue	28,616	44,119	(15,503)	-35.1%		98,008	138,288	(40,280)	-29.1%	
Total revenue	<u>\$ 69,456</u>	<u>\$ 91,984</u>	<u>\$ (22,528)</u>	<u>-24.5%</u>		<u>\$ 225,610</u>	<u>\$ 290,761</u>	<u>\$ (65,151)</u>	<u>-22.4%</u>	

Total revenue decreased 24.5% and 22.4% for the thirteen and thirty-nine weeks ended November 2, 2019 as compared to the same period last year.

fye Segment

The following table sets forth a period over period comparison of net fye sales by merchandise category:

(amounts in thousands, except store count)	Thirteen Weeks Ended		Change		Comp Store Net Sales	Thirty-nine Weeks Ended		Change		Comp Store Net Sales
	November 2, 2019	November 3, 2018	\$	%		November 2, 2019	November 3, 2018	\$	%	
	fye net sales	\$ 39,988	\$ 46,758	\$ (6,770)		-14.5%	-5.2%	\$ 127,602	\$ 149,975	
Other revenue	852	1,107	(255)	-23.0%		—	2,498	(2,498)	-100.0%	
Total revenue	\$ 40,840	\$ 47,865	\$ (7,025)	-14.7%		\$ 127,602	\$ 152,473	\$ (24,871)	-16.3%	
As a % of fye net sales										
Trend / Lifestyle	46.2%	41.9%			6.3%	45.2%	40.1%			8.4%
Video	25.8%	29.6%			-17.7%	26.2%	30.2%			-13.7%
Music	17.7%	17.9%			-9.4%	17.7%	18.4%			-5.8%
Electronics	10.3%	10.6%			-7.4%	10.9%	11.3%			-3.9%
	100.0%	100.0%				100.0%	100.0%			
Store Count:						206	227	(21)	-9.3%	
Total Square footage						1,145	1,268	(123)	-9.7%	

fye net sales. Net sales decreased 14.5% and 16.0% during the thirteen weeks and thirty-nine weeks ended November 2, 2019, respectively, as compared to the same periods last year. The decline in net sales resulted from a 9.3% decline in total stores in operation and a 5.2% and 2.1% decline in comparable store net sales for the thirteen and thirty-nine weeks ended November 2, 2019, respectively.

Trend/Lifestyle:

Comparable store net sales in the trend/lifestyle category increased 6.3% and 8.4% during the thirteen and thirty-nine weeks ended November 2, 2019, respectively. Trend/lifestyle products represented 46.2% and 45.2% of total net sales for the thirteen and thirty-nine weeks ended November 2, 2019, respectively, compared to 41.9% and 40.1% in the comparable periods last year. The Company continues to take advantage of opportunities to strengthen its selection and shift product mix to growing categories of entertainment-related merchandise.

Video:

Comparable store sales in the video category decreased 17.7% and 13.7% during the thirteen and thirty-nine week periods ended November 2, 2019, respectively. The video category represented 25.8% and 26.2% of total net sales for the thirteen and thirty-nine weeks ended November 2, 2019, respectively, compared to 29.6% and 30.2% in the comparable periods last year due to continued industry-wide decline in physical media sales.

Music:

During the thirteen and thirty-nine weeks ended November 2, 2019, music sales in comparable stores decreased 9.4% and 5.8%, respectively, versus the thirteen and thirty-nine weeks ended November 3, 2018. The music category represented 17.7% of total net sales for both thirteen and thirty-nine weeks ended November 2, 2019, respectively, compared to 17.9% and 18.4% for the thirteen and thirty-nine weeks ended November 3, 2018 due to continued industry-wide decline in physical media sales.

Electronics:

Comparable store net sales in the electronics category decreased 7.4% and 3.9% during the thirteen and thirty-nine weeks ended November 2, 2019, respectively. Electronics net sales represented 10.3% and 10.9% of total net sales for the thirteen and thirty-nine weeks ended November 3, 2019, respectively, compared to 10.6% and 11.3% of total net sales for the comparable periods last year.

Other Revenue. Other revenue, which was primarily related to commissions and fees earned from third parties for the fye segment, was approximately \$0.9 million and \$2.5 million for the thirteen and thirty-nine weeks ended November 2, 2019, respectively, compared to \$1.1 million and \$3.6 million in the comparable periods last year. The decline in other revenue was primarily due to lower number of stores in operation.

etailz Segment

etailz reported sales of \$28.6 million and \$98.0 million for the thirteen and thirty-nine weeks ended November 2, 2019, respectively, compared to \$44.1 million and \$138.3 million for the thirteen and thirty-nine weeks ended November 3, 2018. etailz generates revenue across a broad array of product lines primarily through the Amazon Marketplace. Categories include: apparel, baby, beauty, electronics, health & personal care, home/kitchen/grocery, pets, sporting goods, toys & art. During the thirty-nine weeks ended November 2, 2019, etailz sold approximately 28,000 unique SKUs from approximately 1,600 suppliers, compared to approximately 38,000 unique SKUs from approximately 2,100 suppliers during the thirty-nine weeks ended November 3, 2018. The decline in sales was attributable to the vendor remediation performance improvement plan which was implemented during the fourth quarter of 2018 for the etailz segment, as discussed in Note 1 to the interim condensed consolidated financial statements included elsewhere in this Form 10-Q.

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

(amounts in thousands)	Thirteen Weeks Ended		Change		Thirty-nine Weeks Ended		Change	
	November 2, 2019	November 3, 2018	\$	%	November 2, 2019	November 3, 2018	\$	%
fye gross profit	\$ 16,155	\$ 18,276	\$ (2,121)	-11.6%	\$ 50,670	\$ 61,181	\$ (10,511)	-17.2%
etailz gross profit	6,924	9,110	(2,186)	-24.0%	22,915	30,066	(7,151)	-23.8%
Total gross profit	\$ 23,079	\$ 27,386	\$ (4,307)	-15.7%	\$ 73,585	\$ 91,247	\$ (17,662)	-19.4%
fye gross profit as a % of fye revenue	39.6%	38.2%			39.7%	40.1%		
etailz gross profit as a % of etailz revenue	24.2%	20.6%			23.4%	21.7%		
Total gross profit as a % of total revenue	33.2%	29.8%			32.6%	31.4%		

Gross profit decreased 15.7% to \$23.1 million for the thirteen weeks ended November 2, 2019 compared to \$27.4 million for the thirteen weeks ended November 3, 2018. For the thirty-nine weeks ended November 2, 2019, gross profit decreased 19.4% to \$73.6 million compared to \$91.2 million for the comparable period last year.

fye Segment

fye gross profit as a percentage of total revenue for the thirteen and thirty-nine weeks ended November 2, 2019 was 39.6% and 39.7%, respectively, compared to 38.2% and 40.1% for the comparable periods last year. The increase in the gross profit percentage for the thirteen weeks ended November 2, 2019, as compared to the thirteen weeks ended November 3, 2018, was primarily attributable to increased merchandise margin in the Trend/Lifestyle category.

etailz Segment

etailz gross profit as a percentage of total revenue for the thirteen and thirty-nine weeks ended November 2, 2019 was 24.2% and 23.4%, respectively, compared to 20.6% and 21.7% for the comparable periods last year. The increase in the gross profit rate was a result of the performance improvement plan implemented during the fourth quarter of 2018. See Note 1 to the interim condensed consolidated financial statements, included elsewhere in this Form 10-Q for the description of the etailz segment performance improvement plan.

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

(amounts in thousands)	Thirteen Weeks Ended		Change		Thirty-nine Weeks Ended		Change	
	November 2, 2019	November 3, 2018	\$	%	November 2, 2019	November 3, 2018	\$	%
fye SG&A, excluding depreciation and amortization	\$ 21,012	\$ 26,620	\$ (5,608)	-21.1%	\$ 67,094	\$ 79,214	\$ (12,120)	-15.3%
As a % of total fye revenue	51.4%	55.6%			52.6%	52.0%		
etailz SG&A, excluding depreciation and amortization	7,812	12,217	(4,405)	-36.1%	25,246	36,528	(11,282)	-30.9%
As a % of total etailz revenue	27.3%	27.7%			25.8%	26.4%		
Depreciation and amortization	1,097	2,303	(1,206)	-52.4%	3,130	6,808	(3,678)	-54.0%
Total SG&A	\$ 29,921	\$ 41,140	\$ (11,219)	-27.3%	\$ 95,470	\$ 122,550	\$ (27,080)	-22.1%
As a % of total revenue	43.1%	44.7%			42.3%	42.1%		

SG&A expenses decreased \$11.2 million and \$27.1 million for the thirteen and thirty-nine weeks ended November 2, 2019, respectively.

fye Segment

fye SG&A, excluding depreciation and amortization expenses, decreased \$5.6 million, or 21.1%, and \$12.1 million, or 15.3%, for the thirteen and thirty-nine weeks ended November 2, 2019, respectively. As a percentage of fye revenue, SG&A expenses in the fye segment for the thirteen and thirty-nine weeks ended November 2, 2019 were 51.4% and 52.6%, respectively, compared to 55.6% and 52.0% for the same periods last year. The decline in SG&A expenses was due to lower sales primarily as a result of fewer stores in operation. The decrease in SG&A expenses as a percentage of revenue for the thirteen weeks ended November 2, 2019 was primarily due to a decrease in outside consulting and professional fees. The increase in SG&A expenses as a percentage of revenue for the thirty-nine weeks ended November 2, 2019 was primarily due to higher outside consulting and professional fees during the first and second quarters of fiscal 2019.

etailz Segment

etailz SG&A, excluding depreciation and amortization expenses, decreased \$4.4 million and \$11.3 million for the thirteen and thirty-nine weeks ended November 2, 2019, respectively. As a percentage of etailz revenue, SG&A expenses in the etailz segment for the thirteen and thirty-nine weeks ended November 2, 2019 were 27.3% and 25.8%, respectively, compared to 27.7% and 26.4% for the same periods last year. The decrease was primarily due to expense reduction initiatives implemented in the fourth quarter of 2018.

Asset Impairment charges. During the thirty nine weeks ended November 2, 2019, the Company concluded, based on continued operating losses within the fye segment driven by lower than expected third quarter sales that triggering events had occurred, and an evaluation of the fye long-lived assets for impairment was required. Fixed assets and operating lease right-of-use assets, primarily at the Company's retail store locations, as well as certain fixed assets at the fye corporate location, consisting of the home office and the Albany distribution center, where impairment was determined to exist were written down to their estimated fair values as of the end of November 2, 2019, resulting in the recording of fixed assets and operating lease right-of-use assets impairment charges of \$2.4 million and \$13.6 million, respectively. Estimated fair values for long-lived assets at these locations, including operating lease right of use assets, store fixtures, equipment, and leasehold improvements were determined based on a measure of discounted future cash flows over the remaining lease terms at the respective locations. Future cash flows were estimated based on individual store and corporate level plans and were discounted at a rate approximating the Company's cost of capital. Management believes its assumptions were reasonable and consistently applied.

Depreciation and amortization. Consolidated depreciation and amortization expense decreased \$1.2 million and \$3.7 million for the thirteen and thirty-nine weeks ended November 2, 2019, respectively, primarily due to the \$4.1 million decrease in carrying value of fixed assets and the \$16.4 million decrease in intangible assets resulting from impairment charges recorded during the fourth quarter of fiscal 2018. For a discussion of the Company's

impairment charges, 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 as of and for the year ended February 2, 2019.

Interest Expense. Interest expense was \$228 thousand and \$554 thousand during the thirteen and thirty-nine weeks ended November 2, 2019, respectively. Interest expense consisted primarily of interest payments resulting from borrowings under the Company’s credit facility and unused commitment fees. Interest expense during the thirteen and thirty-nine weeks ended November 3, 2018 was \$277 thousand and \$444 thousand, respectively. The decrease in interest expense for the thirteen weeks ended November 2, 2019 was due to a decrease in interest rates for the borrowings under our credit facility. The increase in interest expense for the thirty-nine weeks ended November 2, 2019 was due to 9 months of borrowings during fiscal 2019 as compared to 4 months of borrowings during fiscal 2018.

Other Loss (Income). As of November 2, 2019, other (income) loss consisted of the following:

(amounts in thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Investment write down	\$ —	\$ —	\$ 500	\$ —
Interest income	(30)	(43)	(112)	(171)
Other (income) loss	\$ (30)	\$ (43)	\$ 388	\$ (171)

Income Tax Expense. Based on available objective evidence, management concluded that a full valuation allowance should be recorded against the Company’s deferred tax assets. There were insignificant tax expense amounts recorded during the thirteen and thirty-nine weeks ended November 2, 2019 and comparative periods last year.

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

(amounts in thousands)	Thirteen Weeks Ended			Thirty-nine Weeks Ended		
	November 2, 2019	November 2, 2018	\$ Change	November 2, 2019	November 2, 2018	\$ Change
Loss before income tax	\$ (21,003)	\$ (13,988)	\$ (7,015)	\$ (15,666)	\$ (31,576)	\$ 15,910
Income tax expense	80	64	16	223	136	87
Net loss	\$ (21,083)	\$ (14,052)	\$ (7,031)	\$ (15,889)	\$ (31,712)	\$ 15,823

LIQUIDITY

Liquidity and Cash Flows Considerations:

The unaudited condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 2, 2019 were prepared on the basis of a going concern which contemplates that the Company will be able to realize assets and satisfy liabilities and commitments in the normal course of business. The ability of the Company to meet its liabilities and to continue as a going concern is dependent on improved profitability, the continued implementation of the performance improvement plan for the etailz segment, the availability of future funding and the completion of other strategic alternatives. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Company incurred net losses of \$39.1 million and \$31.7 million for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively, and has an accumulated deficit of \$89.3 million at November 2, 2019. In addition, net cash used in operating activities for the thirty-nine weeks ended November 2, 2019 was \$30.8 million. Net cash used in operating activities for the thirty-nine weeks ended November 3, 2018 was \$53.3 million. The Company also experienced negative cash flows from operations during fiscal 2018 and 2017, and expects to incur net losses in the foreseeable future. Based on its recurring losses from operations, expectation of continuing operating losses for the foreseeable future, and uncertainty with respect to any available future funding as well as the completion of other strategic alternatives, the Company has concluded that there is substantial doubt about the Company's ability to continue as a going concern for a period of one year after the date of filing of this Quarterly Report on Form 10-Q.

Management has plans to address the Company's current liquidity position. As disclosed in the Company's Annual Report on Form 10-K filed May 14, 2019, the Company implemented strategic initiatives on December 11, 2018, aimed at improving organizational efficiencies and conserving working capital needed to support the growth of the etailz segment (the "performance improvement plan"). As a result of the initiative, and inventory management in the fye segment, the Company was able to reduce cash used in operations by \$22.5 million for the thirty-nine weeks ended November 2, 2019 as compared to the thirty-nine weeks ended November 2, 2018. We anticipate continued improvement in cash flows used in operations for the remainder of fiscal 2019. In addition, the Company continues to evaluate other strategic initiatives, including establishing a credit facility at the etailz segment, which could provide additional liquidity. At November 2, 2019, we had cash and cash equivalents of \$3.1 million, net working capital of \$35.4 million, short-term borrowings in the amount of \$27.8 million on our revolving credit facility, and \$11.0 million of availability on our revolving credit facility. This compares to \$4.5 million in cash and cash equivalents, net working capital of \$70.0 million, short-term borrowings in the amount of \$27.4 million on the Company's revolving credit facility at November 3, 2018, and \$22.1 million of availability on our revolving credit facility.

The Company's primary sources of liquidity are its borrowing capacity under its revolving credit facility, available cash and cash equivalents, and to a lesser extent, cash generated from operations. Our cash requirements relate primarily to working capital needed to operate our business, including funding operating expenses, the purchase of inventory and capital expenditures. Our ability to achieve profitability and meet future liquidity needs and capital requirements will depend upon numerous factors, including the timing and amount of our revenue; the timing and amount of our operating expenses; the timing and costs of working capital needs; and in the implementation of our strategy and planned activities.

In addition to the aforementioned current sources of existing working capital, the Company is continuing its efforts to generate additional sales and increase margins. There can be no assurance that any of the initiatives or strategic alternatives described above will be implemented, successful or consummated.

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

<i>(amounts in thousands)</i>	As of or for the Thirty-nine Weeks Ended		Change
	November 2, 2019	November 3, 2018	\$
Operating Cash Flows	\$ (30,822)	\$ (53,337)	\$ 22,515
Investing Cash Flows	(2,013)	(1,546)	(467)
Financing Cash Flows	27,771	25,940	1,831
Capital Expenditures ⁽¹⁾	(2,128)	(2,851)	723
Cash, Cash Equivalents, and Restricted Cash ⁽²⁾	9,162	14,563	(5,401)
Merchandise Inventory	101,130	131,285	(30,155)
Working Capital	35,378	70,000	(34,622)

(1) Included in Investing Cash Flows

(2) Cash and cash equivalents per condensed consolidated balance sheets	\$ 3,073	\$ 4,497	
Add: restricted cash	6,089	10,066	
Cash, cash equivalents, and restricted cash	<u>\$ 9,162</u>	<u>\$ 14,563</u>	

Cash used in operations was \$30.8 million for the thirty-nine weeks ended November 2, 2019, primarily due to a net loss of \$39.1 million, adding back loss on impairment of long lived assets of \$16.0 million, depreciation and amortization of \$3.1 million, a \$6.3 million seasonal increase in inventory, a \$1.2 million decrease in prepaid expenses and other current assets, and a \$0.1 million decrease in other long-term assets, combined with a reduction in accounts payable, accrued expenses and other current liabilities, deferred revenue, and other long-term liabilities of \$4.3 million, \$0.9 million, \$1.0 million, and \$7.3 million, respectively. The Company's merchandise inventory and accounts payable are influenced by the seasonality of its business.

Cash used in investing activities was \$2.0 million for the thirty-nine weeks ended November 2, 2019, which consisted primarily of capital expenditures.

Cash provided by financing activities for the thirty-nine weeks ended November 2, 2019, was comprised of \$27.8 million proceeds from short-term borrowings.

Capital Expenditures. During the thirteen and thirty-nine weeks ended November 2, 2019, the Company made capital expenditures of \$0.6 million and \$2.1 million, respectively. The Company currently plans to spend approximately \$3.0 million for capital expenditures during fiscal 2019.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated 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 consolidated financial statements. Management continually evaluates its estimates and judgments including those related to merchandise inventory and return costs and income taxes. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Form 10-K as of and for the year ended February 2, 2019 includes a summary of the critical accounting policies and methods used by the Company in the preparation of its interim condensed consolidated financial statements. As goodwill was fully impaired during fiscal 2018, the Company no longer considers goodwill to be a critical accounting policy. With the exception of goodwill, there have been no material changes or modifications to the critical accounting policies since February 2, 2019.

Recent Accounting Pronouncements:

The information set forth under Note 3, Recently Adopted Accounting Pronouncements section contained in Item 1, included elsewhere in the Form 10-Q, is incorporated herein by reference.

Non-GAAP Measures:

This Form 10-Q contains certain non-GAAP metrics, including: adjusted operating loss for the etailz segment and SG&A excluding depreciation and amortization expenses, for each reporting segment. A non-GAAP measure is not a recognized measure of financial performance under GAAP in the United States, and should not be considered as a substitute for SG&A expenses, operating earnings, net earnings from continuing operations or cash flows from operating activities, as determined in accordance with GAAP. Non-GAAP items are provided because management believes that, when reconciled from the GAAP items to which they relate, they provide additional useful information to investors regarding the Company's operational performance.

The Company calculates etailz adjusted loss from operations to evaluate its own operating performance and as an integral part of its planning process. The Company presents etailz adjusted loss from operations as a supplemental measure because it believes such a measure provides management and investors with a more complete understanding of its business operating results, including underlying trends, by excluding the effects of certain charges.

The Company calculates SG&A expenses, excluding depreciation and amortization expenses, for each reporting segment to evaluate its own operating performance and as an integral part of its planning process. The Company presents SG&A expenses, excluding depreciation and amortization expenses, as a supplemental measure because it believes such a measure provides management and investors with a more complete understanding of its business operating results, including underlying trends, by excluding the effects of certain charges.

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES
PART I – FINANCIAL INFORMATION

Item 3 - 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, interest expense would be increased 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 as of and for the year ended February 2, 2019.

Item 4 – Controls and Procedures

(a) Evaluation of disclosure controls and procedures. The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of November 2, 2019, have concluded that as of such date the Company's disclosure controls and procedures were effective and designed to ensure that (i) information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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

TRANS WORLD ENTERTAINMENT CORPORATION AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 1 – Legal Proceedings

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

Loyalty Memberships and Magazine Subscriptions Class Action

On November 14, 2018, three consumers filed a punitive class action complaint against the Company and Synapse Group, Inc. in the United States District Court for the District of Massachusetts, Boston Division (Case No.1:18-cv-12377-DPW) concerning enrollment in the Company's Backstage Pass VIP loyalty program and associated magazine subscriptions. The complaint alleged, among other things, that the Company's "negative option marketing" misled consumers into enrolling for membership and subscriptions without obtaining the consumers' consent. The complaint sought to represent a nationwide class of "all persons in the United States" who were enrolled in and/or charged for Backstage Pass VIP memberships and/or magazine subscriptions, and to obtain statutory and actual damages on their behalf.

On April 11, 2019, the plaintiffs voluntarily dismissed their lawsuit. On May 8, 2019, two of the plaintiffs from the dismissed lawsuit filed a similar punitive class action in Massachusetts state court (Civ. Act. No. 197CV00331, Mass. Super. Ct. Hampden Cty.), based on the same allegations, but this time seeking to represent only a class of "FYE customers in Massachusetts" who were charged for VIP Backstage Pass Memberships and/or magazine subscriptions. The Company believes it has meritorious defenses to the plaintiffs' claims and, if the new case is not dismissed in full, the Company intends to vigorously defend the action.

Store Manager Class Actions

There are two pending class actions. The first, Spack v. Trans World Entertainment Corp. was originally filed in the District of New Jersey, April 2017 (the "Spack Action"). The Spack Action alleges that the Company misclassified Store Managers ("SMs") as exempt nationwide. It also alleges that Trans World improperly calculated overtime for Senior Assistant Managers ("SAMs") nationwide, and that both SMs and SAMs worked "off-the-clock." It also alleges violations of New Jersey and Pennsylvania State Law with respect to calculating overtime for SAMs. The second, Roper v. Trans World Entertainment Corp., was filed in the Northern District of New York, May 2017 (the "Roper Action"). The Roper Action also asserts a nationwide misclassification claim on behalf of Store Managers. Both actions were consolidated into the Northern District of New York, with the Spack Action being the lead case.

Plaintiffs moved for conditional certification of a collective of SMs in June 2018, and that motion was partially granted in January 2019. The opt-in period for the collective that was certified was closed on April 6, 2019. Opt-in discovery relating to that potential collective has commenced. The Company believes it has meritorious defenses to the plaintiffs' claims and intends to vigorously defend the action.

Item 1A – Risk Factors

The ability of the Company to satisfy its liabilities and to continue as a going concern is dependent on improved profitability, the continued implementation of the performance improvement plan at our etailz segment, the availability of future funding and the completion of other strategic alternatives.

The unaudited condensed consolidated financial statements for the thirteen and thirty-nine weeks ended November 2, 2019 included in this report were prepared on the basis of a going concern which contemplates that the Company will be able to realize assets and satisfy liabilities and commitments in the normal course of business.

As disclosed in this report and the Company's previous filings with the Securities and Exchange Commission, the Company has suffered recurring losses from operations and the Company's primary sources of liquidity are borrowing capacity under its revolving credit facility, available cash and cash equivalents, and cash generated from operations, all of which are limited. Therefore, the ability of the Company to meet its liabilities and to continue as a going concern is dependent on improved profitability, the continued implementation of the performance improvement plan for the etailz segment, the availability of future funding and the completion of other strategic alternatives. The Company has concluded that there is substantial doubt about the Company's ability to continue as a going concern for a period of one year after the date of filing of the November 2, 2019 unaudited condensed consolidated financial statements. The financial results for the fiscal quarter ended November 2, 2019 included in this report do not include any adjustments that might result from the outcome of these uncertainties.

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 2, 2019.

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

None.

Item 3 – Defaults Upon Senior Securities

None.

Item 4 – Mine Safety Disclosure

Not Applicable.

Item 5 – Other Information

None.

Item 6 - Exhibits**(A) Exhibits -**

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

SIGNATURES

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

TRANS WORLD ENTERTAINMENT CORPORATION

December 23, 2019 **By: /s/ Michael Feurer** _____
Michael Feurer
Chief Executive Officer
(Principal Executive Officer)

December 23, 2019 **By: /s/ Edwin Sapienza** _____
Edwin Sapienza
Chief Financial Officer
(Principal and Chief Accounting Officer)

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

I, Michael Feurer certify that:

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

Dated: December 23, 2019

/s/ Michael Feurer
Michael Feurer
Chief Executive Officer
Trans World Entertainment Corporation

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

I, Edwin Sapienza, Chief Financial Officer of Trans World Entertainment Corporation (the “Registrant”), certify that:

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

Dated: December 23, 2019

/s/ Edwin Sapienza
Edwin Sapienza
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 November 2, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Michael Feurer, Chief Executive Officer of the Company and Edwin Sapienza, 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/ Michael Feurer
Michael Feurer
Chief Executive Officer
December 23, 2019

/s/ Edwin Sapienza
Edwin Sapienza
Chief Financial Officer
December 23, 2019

