

# WHAT LIES WITHIN...

2008 Annual Report



The heart of the Build-A-Bear Workshop® brand is our commitment to our core values. We are committed to providing a unique brand experience — one that combines fun with imagination and self-expression, and always strengthens our connection with our Guests. In this challenging economic environment, we are reminded that **WHAT LIES BEHIND US ... AND WHAT LIES BEFORE US ... ARE NOTHING COMPARED TO ... WHAT LIES WITHIN US.** — Ralph Waldo Embearson



## **WHAT LIES WITHIN BUILD-A-BEAR WORKSHOP KEEPS US FOCUSED ON DOING WHAT MAKES A DIFFERENCE:**

### **Connecting with Our Guests**

The strong emotional connection our Guests have with our brand keeps our concept fresh and relevant.

### **Expanding Our Brand Experience**

The emotional connection that starts in our store continues at home, as Guests engage with our virtual world, our proprietary characters, and our top licensing programs.

### **Reinforcing Our Brand Value**

At a time when fewer people are going to the mall, we remain connected by expanding our value offerings, staying culturally relevant, and providing family fun at an affordable price.

### **Touching Lives**

We are strongly committed to leaving a pawisitive mark because we know friends **can** make a world of difference.

## FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share, per store, and per gross square foot data)

Fiscal year <sup>(1)</sup>	2008	2007	2006
<b>Revenues:</b>			
Net retail sales	\$ 460,963	\$ 468,168	\$ 432,572
Franchise fees	\$ 4,157	\$ 3,577	\$ 3,521
Licensing revenue	\$ 2,741	\$ 2,616	\$ 979
Total revenues	\$ 467,861	\$ 474,361	\$ 437,072
<b>Net income</b>	<b>\$ 4,564</b>	<b>\$ 22,509</b>	<b>\$ 29,490</b>
<b>Earnings per common share:</b>			
Basic	\$ 0.24	\$ 1.11	\$ 1.46
Diluted	\$ 0.24	\$ 1.10	\$ 1.44
<b>Other financial and store data:<sup>(2)</sup></b>			
Gross margin (dollars) <sup>(3)</sup>	\$ 190,500	\$ 209,090	\$ 205,063
Gross margin (percent) <sup>(3)</sup>	41.3%	44.7%	47.4%
Number of company-owned stores at end of period	346	321	271
Average net retail sales per store	\$ 1,329	\$ 1,576	\$ 1,761
Net retail sales per gross square foot	\$ 445	\$ 516	\$ 573

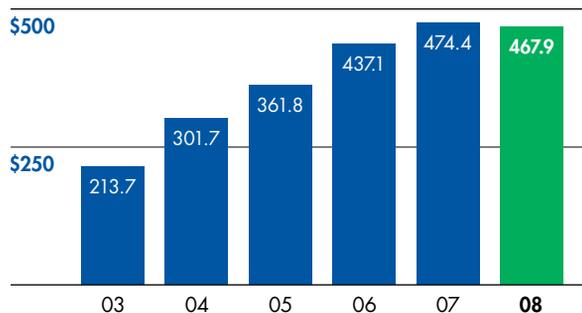
(1) Our fiscal year consists of 52 or 53 weeks; it ends on the Saturday nearest Dec. 31 in each year. Fiscal year 2008 consisted of 53 weeks; fiscal years 2007 and 2006 were 52 weeks each.

(2) For descriptions of this financial and store data, please see the fiscal 2008 annual report on Form 10-K.

(3) Gross margin represents net retail sales less cost of merchandise sold. Gross margin percentage represents gross margin divided by net retail sales.

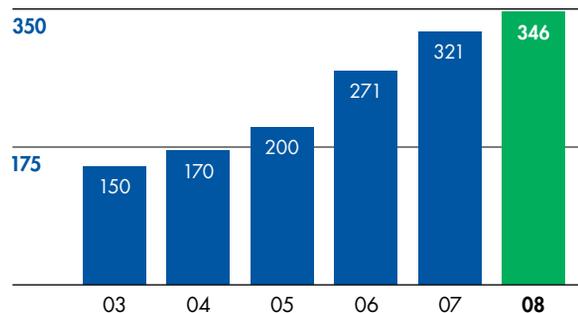
### Total Revenue

(dollars in millions)



### Number of Company-Owned Stores

(at end of period)



## COMPANY PROFILE

Build-A-Bear Workshop, Inc., is the leading and only global company that offers an interactive make-your-own stuffed animal retail-entertainment experience. Founded in 1997, the company and its franchisees currently operate more than 400 Build-A-Bear Workshop

stores worldwide, including company-owned stores in the United States, Puerto Rico, Canada, the United Kingdom, Ireland, and France, and franchise stores in Europe, Asia, Australia and Africa. In 2007, the interactive experience was enhanced — all the way to CyBEAR™ space —

with the launch of buildabearville.com®, the company's virtual world stuffed with fun. Build-A-Bear Workshop (NYSE: BBW) posted total revenue of \$468 million in fiscal 2008. For more information, call 888.560.BEAR (2327) or visit the company's award-winning Web site, [www.buildabear.com](http://www.buildabear.com).



# Letter to Shareholders

**Dear Shareholders,**

In 1997 Build-A-Bear Workshop was founded on a simple but powerful idea — creating a company with heart. Our entertaining brand experience combines imagination, creativity, empowerment, and fun. Our stores are a mini theme park in the mall, where people can escape from outside pressures and find the comfort, security, and caring that the teddy bear has represented for over 100 years. Now, more than ever, the world needs the extra hug of a teddy bear.



**MAXINE CLARK**  
Founder, Chairman, and Chief Executive Bear

## CONNECTING WITH OUR GUESTS

The Build-A-Bear Workshop experience of making your own stuffed animal friend encourages powerful emotions in our young Guests: imagination, creativity, self-expression, and friendship. Our store is an accessible and affordable place where families can have fun together. During our trademarked heart ceremony, Guests make a wish on their new friend's heart, forming a friendship that will last forever. This strong emotional connection is part of what gives our concept staying power.



CHOOSE ME



HEAR ME



STUFF ME



STITCH ME



FLUFF ME

Families have embraced our heart-filled experience. We ended 2008 with 408 stores in 19 countries. Our Guests around the world have made more than 70 million furry friends. We consider Build-A-Bear Workshop to be the premiere retail-entertainment brand. We have also grown to be the 10th largest toy retailer in the United States. And we are the first company with both real-world stores and a virtual world experience. More than 8 million citizens are registered at buildabearville.com.

The current difficult and uncertain economic environment, including the recent unprecedented decline

in consumer spending and confidence, is clearly reflected in our financial results. We have responded to these challenges by making significant changes to all aspects of our operations that we can control and putting plans in place to maximize our business during these times. But we remain closely focused on “what lies within us”— the commitments to our Guests, our associates, our communities, and our investors that are embedded in the Build-A-Bear Workshop brand.

Simply put, our core values are the compass that will guide us through these difficult times and enable us to meet our

commitments, which include the delivery of long-term shareholder value.

### 2008 Financial Results

Overall, 2008 was a disappointing year. Total revenues declined slightly to \$467.9 million, and net income, including a number of charges and adjustments, was \$4.6 million, or 24 cents per diluted share.

However, there were several bright spots in our 2008 results. Our European operations continued their strong growth, delivering record sales and profits. Buildabearville.com, our online virtual world, gained



DRESS ME



NAME ME

TAKE ME HOME®

significant traction. In the fourth quarter, we sold more holiday themed animals and welcomed more new Guests into our stores than ever before. We were also named to the 2009 FORTUNE 100 Best Companies to Work For® list.

It seems clear that the economic challenges will continue in 2009. We are confident that we will weather these difficult times. Our strong store model has proven itself by delivering profits and positive cash flow in a wide range of economic climates. We are happy to report a strong, debt-free balance sheet, ending the

year with \$47 million in cash, even while we invested \$14 million to repurchase 1.7 million shares during the year. In 2008, we expanded our credit facility to \$40 million, with a seasonal overline to \$50 million, while lowering interest rates. Although we have not used it since 2003, this expanded facility provides us with added financial flexibility.

### Setting the Right Priorities

Challenging times demand clear priorities. Our brand is the cornerstone of our success, and we will continue to invest and build its long-term value. However, we are also focused

on maximizing cash flow by reducing expenses and costs associated with our business. We are already taking actions to achieve those goals:

- We announced we will discontinue the friends 2B made® concept and expect this product line to close operations by the end of the third quarter of 2009.
- We slowed store expansion and capital spending. We plan to open one new store in 2009, compared with 25 in 2008, and we will reduce capital spending by 61 percent in 2009.

## EXPANDING OUR BRAND EXPERIENCE



We are building the top entertainment brand in the world by engaging Guests both in the store and at home. Buildabearville.com opens up endless entertainment aspects and possibilities for our business. In 2008, we launched a new chapter in the story of Build-A-Bear Workshop entertainment with our own furry-friend inspired storybook, webisodes, and buildabearville.com content. Holly & Hal Moose™ became the best-selling holiday animals in our history, launching a new world of possibilities. We also engaged Guests and expanded our interactivity at home through our licensing programs with The Game Factory® for Nintendo DS® and Wii® games.

- We implemented wide-ranging cost saving plans, including reductions in marketing and advertising, transportation and distribution, central office payroll, and outside services.
- We are improving our store lease terms, taking advantage of the timing of renewals and kick-out clauses as we evaluate individual store performance and market characteristics for long-term positioning.

We fundamentally believe that our long-term success as a company requires that we make choices that strengthen our brand and are true to our core values.

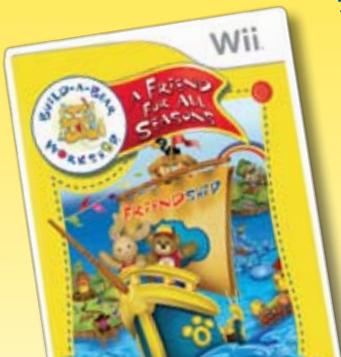
That starts where our business starts — with our commitment to connect with our Guests by providing an experience that combines imagination, creativity, empowerment, self-expression, sharing, and fun. Our young Guests leave our store walking a little taller and prouder, with a sense of accomplishment and

responsibility for their new best friend. They have made more than a bear; they have made a lasting memory ... and we have formed a relationship for life. This strong emotional connection is what Build-A-Bear Workshop is all about.

In these challenging times, we have been able to attract new Guests to our brand experience by emphasizing the value in our assortment. We retain these Guests through our Stuff Fur Stuff® loyalty program and online experience at [buildabearville.com](http://buildabearville.com).



BRINGING THE EXPERIENCE HOME





We kicked off the 2008 holiday season with a new strategic approach to advertising: our Chief Executive Bear served as our spokesperson, talking directly to Moms. Plus, we reinforced our commitment to offering personalized gifts within everyone's reach by having more opening price-point animals than ever before.

We have strengthened our entertainment offerings with character-based books and videos, as well as licensed products. Not only can our Guests snuggle with their favorite Build-A-Bear Workshop stuffed animal, they can read its adventure story before bedtime or interact online and through licensed video games.

### A Whole New World!

We are very pleased with Build-A-Bearville™ and the community it is building, as well as our initial programs for direct monetization of the space. The population of Build-A-Bearville continues to grow, reinforcing brand loyalty.

We see evidence that visits to buildabearville.com increase Guest store visits and overall spending with Guest survey data showing that 10 percent of all store Guests are highly influenced to visit our stores through their experience at buildabearville.com.

Just one year into the launch of the site, we are finding that Guests are just as passionate about Build-A-Bearville as they are about our stores, and we are translating this passion into increased revenues. Our initial offering of Bear Bills™ game cards exceeded our sales expectations, and we will expand these offerings in 2009.

## REINFORCING OUR BRAND VALUE

At a time when more people are looking to save money and making fewer trips to the mall, our expanded selection of value priced merchandise has attracted new Guests while reinforcing our message that the Build-A-Bear Workshop experience is affordable, high-value, and fun. Build-A-Bearville enhances the play options of our furry friends offering even more value for our Guests. And if it's hot for kids, it's hot for bears and we have it! Our products are culturally relevant and reflect current trends through our powerful partnerships with brands such as Disney's High School Musical®, Disney's Hannah Montana®, and Sanrio's Hello Kitty®.



The unique combination of a physical store base, strong brand awareness, and a virtual world gives us opportunities other companies do not have. As this new online play space continues to grow in importance, Build-A-Bearville will continue to roll out new offerings and features.

**Values at Our Heart**

Every time we extend the reach of our brand, we take care to reinforce our commitment to the values it represents. Because our brand commitment is essential to our long-term success, I am pleased to report that our

signature store experience is as strong as ever. Guest satisfaction scores remain near record levels. And because our associates *are* the Build-A-Bear Workshop experience, I am very proud we were recently named to the 2009 FORTUNE 100 Best Companies to Work For list in America.

**A Community Connection**

Connecting with our communities is also at the heart of our business. Our bears, lovingly brought to life by kids of all ages, express love, calm fears, and show compassion

— all things the world needs right now. We can spread our brand values and message and empower children to be part of changing the world for the better.

In 2009, we launched our Love. Hugs. Peace.™ global movement as a platform for our giving programs and to inspire our Guests to make a difference. At [www.buildabear.com](http://www.buildabear.com), Guests can make a pledge to show how they will get involved, send an e-hug, and learn about many ways to give back. The movement is also supported by a signature anthem,



  
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 by Sanrio®  
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[www.sanrio.com](http://www.sanrio.com)

EXPANDING OUR OFFERINGS

BEARY LIMITED EDITION  
  
 BEAR



love. hugs. peace.™

“Let’s Talk About Love,” initially performed by David Archuleta.

Additional artists will record the song with their own unique styles as the movement continues throughout the year. Proceeds from song downloads will benefit the international relief agency Save the Children®.

### Our Commitment to the Future

This tough environment offers an opportunity to reinforce the heart of our brand. Now, more than ever, we believe that our continued success requires being true to what lies within us as a company and as individuals.

It takes dedication to live these values day in and day out and to bring our brand to life. I want to thank our Guests, our associates, and our shareholders for staying true to the heart of the Build-A-Bear Workshop brand and making us the company we are today. While we face a difficult economy and inevitably

difficult decisions, we will come through these challenges stronger because we will do it together ... one Guest smile at a time, one day at a time. It won’t be easy or happen quickly, but I believe our heart and our financial strength will enable us to emerge from this environment as a stronger and more focused brand, even more connected to our Guests.

Beary Best Regards,

Maxine Clark  
Founder, Chairman,  
and Chief Executive Bear  
March 31, 2009

## TOUCHING LIVES



Build-A-Bear Workshop has always had a strong commitment to leave a pawstitive mark on the world.

Since our inception, we have donated more than \$20 million to support causes related to children, animals, and the environment, sharing the hug of a teddy bear wherever it is needed in our communities and abroad, and recognizing kids who do great things. We began our Love. Hugs. Peace. global movement because we know that friends **can** make a world of difference.

Great things can start with a hug ... of a teddy bear, of a family member, of a friend.

Visit [www.buildabear.com/lovehugspeace](http://www.buildabear.com/lovehugspeace) to find out more about this exciting giving initiative.

Shea Megale, a heroic young woman and author of *Marvelous Mercer*, with her service dog, Mercer.



Our annual Huggable Heroes® search honors and rewards kids doing their part with heart.

## Board of Directors

### Maxine Clark

Founder, Chairman,  
and Chief Executive Bear  
Build-A-Bear Workshop, Inc.

### Barney Ebsworth\*

Founder and CEO  
Windsor, Inc. (a corporation that  
provides financing for venture capital,  
real estate, and other investments)

### Mary Lou Fiala<sup>(1,2)</sup>

Vice Chairman  
and Chief Operating Officer  
Regency Centers Corporation  
(a real estate investment trust  
specializing in the ownership  
and operation of grocery-anchored  
shopping centers)

### James Gould<sup>(2,3)</sup>

Managing General Partner  
The Walnut Group  
(a group of affiliated  
venture capital funds)

### Louis Mucci<sup>(1,3)</sup>

Retired Partner  
PricewaterhouseCoopers LLP

### Coleman Peterson<sup>(2,3)</sup>

President and CEO  
Hollis Enterprises LLC  
(a human resources consulting firm)  
Former Executive Vice President  
of People  
Wal-Mart Stores, Inc.

### William Reisler<sup>(1,2)</sup>

Co-Founder, Managing Partner  
Kansas City Equity Partners  
(a private equity firm)

### Joan Ryan<sup>(1,3)</sup>

Retired Senior Vice President  
Walt Disney Theme Parks  
and Resorts

### Katherine Savitt<sup>(2,3)</sup>

Former Executive Vice President  
and Chief Marketing Officer  
American Eagle Outfitters, Inc.

#### Board Committees:

- (1) Audit Committee
- (2) Compensation Committee
- (3) Nominating and Corporate Governance Committee

\* Board Member Emeritus as of the 2006 Annual Meeting

## Shareholder Information

### Build-A-Bear Workshop

#### World Bearquarters

1954 Innerbelt Business Center Drive  
St. Louis, Mo. 63114-5760  
888.560.2327  
314.423.8000  
Fax: 314.423.8188  
Web: [www.buildabear.com](http://www.buildabear.com)

#### Transfer Agent and Registrar

BNY Mellon Shareowner Services  
480 Washington Boulevard, 27th Floor  
Jersey City, N.J. 07310-1900  
888.667.7679  
[www.bnymellon.com/shareowner/isd](http://www.bnymellon.com/shareowner/isd)

#### Auditors

KPMG LLP  
St. Louis, Mo.

#### Counsel

Bryan Cave LLP  
St. Louis, Mo.

### Form 10-K

The Build-A-Bear Workshop Form 10-K may be requested by a letter to the Investor Relations department at the World Bearquarters, by a phone call to the Investor Relations department at 314.423.8000 x5353, or by an e-mail to [invest@buildabear.com](mailto:invest@buildabear.com).

Comprehensive financial information for Build-A-Bear Workshop is also available at the company's investor relations Web site: <http://ir.buildabear.com>.

### Annual Meeting

The annual meeting of shareholders will be held at 10:00 a.m. St. Louis time (CDT) on Thursday, May 14, 2008, at the company's World Bearquarters, 1954 Innerbelt Business Center Drive, St. Louis, Missouri 63114. A formal notice of the meeting and a proxy statement will be sent to each shareholder as of March 30, 2009.

**BBW** Build-A-Bear Workshop  
**LISTED** common stock is traded  
**NYSE** on the New York Stock  
Exchange. Our symbol is BBW.

As of March 30, 2009, there were approximately 10,300 shareholders. That number is based on the actual number of holders of record and an estimated number of beneficial holders of the company's common stock.

#### Certifications

The most recent certifications by our chief executive officer and chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to our Form 10-K. We have also filed with the New York Stock Exchange the most recent Annual CEO Certification, as required by the New York Stock Exchange.

## Managing Directors

**Paul Bundonis**

Managing Director,  
Stores — Central Region

**Mike Early**

Managing Director,  
Bear Logistics

**Jeff Fullmer**

Managing Director,  
Bear Merchandise Planning  
and Allocation

**Scott Gower**

Managing Director,  
Stores — East Region

**Jennifer Guinn**

Managing Director,  
Corbearate Controller

**Dorrie Krueger**

Managing Director,  
Strategic Bear Planning

**Rick Levine**

Managing Director,  
Stores — West Region

**Roger Parry**

Bear Trading Director — Europe

**Molly Salky**

Managing Director,  
Investor and Public Relations

**Nancy Schwartz**

Managing Director,  
Bear Marketing

**Shari Stout**

Managing Director,  
Bear Stuff Development

## Senior Management

**Maxine Clark**

Founder, Chairman,  
and Chief Executive Bear

**Tina Klocke**

Chief Operations and Financial Bear,  
Treasurer and Secretary

**Darlene Elder**

Chief Human Resources Bear

**Eric Fencil**

Chief Bearrister, General Counsel  
and International Franchising

**Dave Finnegan**

Chief Information and Logistics Bear

**John Haugh**

President and Chief Marketing  
and Merchandising Bear

**Teresa Kroll**

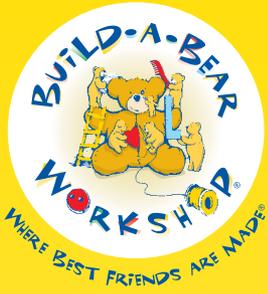
Chief Marketing Bear

## CREATING A GLOBAL COMMUNITY

With 408 stores in 19 countries, we are extremely pleased to bring the smile of making your own stuffed animal friend to Guests around the globe! Build-A-Bear Workshop has confirmed that a hug is absolutely understood in any language.



WE ARE ONE  
GLOBAL COMMUNITY,  
WHERE FRIENDS  
CAN MAKE A  
WORLD OF DIFFERENCE!



**Build-A-Bear Workshop, Inc.**

1954 Innerbelt Business Center Drive

St. Louis, MO 63114

[www.buildabear.com](http://www.buildabear.com)

[buildabearville.com](http://buildabearville.com)

Maxine,  
Thank you so much for creating such a creative and safe environment for kids. I have two children ages 8 and 5 and they absolutely love playing on Build-A-Bearville. Your website has so much to offer both age levels.

My kids have always loved Build-A-Bear Workshop bears and this just expands their level of play. Thanks to BABW there is a place for young children to make and dress their very own bears, and now even play with online. Keep up the great work keeping Build-A-Bearville a fun and exciting place that always has something fresh and new happening that keeps young kids hooked. :)

Thank you beary much,  
A very pleased mom,  
Kim B

