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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

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**FORM 10-Q**

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(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended April 4, 2009

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: 001-32320

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**BUILD-A-BEAR WORKSHOP, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**43-1883836**  
(IRS Employer  
Identification No.)

**1954 Innerbelt Business Center Drive**  
**St. Louis, Missouri**  
(Address of Principal Executive Offices)

**63114**  
(Zip Code)

**(314) 423-8000**  
(Registrant's Telephone Number, Including Area Code)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of May 8, 2009, there were 19,899,288 issued and outstanding shares of the registrant's common stock.

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## PART I-FINANCIAL INFORMATION

## Item 1. Financial Statements

**BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

(Dollars in thousands, except share and per share data)

	<u>April 4,</u> <u>2009</u>	<u>January 3,</u> <u>2009</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 33,857	\$ 47,000
Inventories	43,049	50,586
Receivables	4,306	8,288
Prepaid expenses and other current assets	15,202	16,151
Deferred tax assets	3,961	3,839
Total current assets	100,375	125,864
Property and equipment, net	117,331	123,193
Goodwill	30,843	30,480
Other intangible assets, net	3,881	3,903
Investment in affiliate	7,890	7,721
Other assets, net	8,725	8,991
Total Assets	<u>\$269,045</u>	<u>\$300,152</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 20,728	\$ 37,547
Accrued expenses	6,043	12,593
Gift cards and customer deposits	24,085	29,210
Deferred revenue	7,636	7,634
Total current liabilities	58,492	86,984
Deferred franchise revenue	1,964	2,033
Deferred rent	39,755	41,714
Other liabilities	1,677	1,696
Stockholders' equity:		
Preferred stock, par value \$0.01, Shares authorized: 15,000,000; No shares issued or outstanding at April 4, 2009 and January 3, 2009	—	—
Common stock, par value \$0.01, Shares authorized: 50,000,000; Issued and outstanding: 19,900,754 and 19,478,750 shares, respectively	199	195
Additional paid-in capital	76,621	76,852
Accumulated other comprehensive loss	(12,101)	(12,585)
Retained earnings	102,438	103,263
Total stockholders' equity	167,157	167,725
Total Liabilities and Stockholders' Equity	<u>\$269,045</u>	<u>\$300,152</u>

See accompanying notes to condensed consolidated financial statements.

**BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

(Dollars in thousands, except share and per share data)

	Thirteen weeks ended	
	April 4, 2009	March 29, 2008
<b>Revenues:</b>		
Net retail sales	\$ 96,316	\$ 121,854
Franchise fees	597	1,249
Licensing revenue	429	704
Total revenues	<u>97,342</u>	<u>123,807</u>
<b>Costs and expenses:</b>		
Cost of merchandise sold	61,052	68,739
Selling, general and administrative	36,919	44,827
Store preopening	—	553
Store closing	501	—
Interest expense (income), net	(24)	(460)
Total costs and expenses	<u>98,448</u>	<u>113,659</u>
Income (loss) before income taxes	(1,106)	10,148
Income tax expense (benefit)	(280)	3,755
Net income (loss)	<u>\$ (826)</u>	<u>\$ 6,393</u>
<b>Earnings (loss) per common share:</b>		
Basic	<u>\$ (0.04)</u>	<u>\$ 0.32</u>
Diluted	<u>\$ (0.04)</u>	<u>\$ 0.32</u>
<b>Shares used in computing common per share amounts:</b>		
Basic	18,783,915	20,150,325
Diluted	18,783,915	20,244,984

See accompanying notes to condensed consolidated financial statements.

**BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
(in thousands)

	<u>Thirteen weeks ended</u>	
	<u>April 4,</u>	<u>March 29,</u>
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income (loss)	\$ (826)	\$ 6,393
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	7,039	7,002
Deferred taxes	(575)	(16)
Loss on disposal of property and equipment	5	17
Stock-based compensation	866	900
Change in assets and liabilities:		
Inventories	7,566	(1,339)
Receivables	3,980	1,072
Prepaid expenses and other assets	888	(1,346)
Accounts payable	(15,812)	(13,272)
Accrued expenses and other liabilities	(14,050)	(9,047)
Net cash used in operating activities	<u>(10,919)</u>	<u>(9,636)</u>
Cash flows from investing activities:		
Purchases of property and equipment, net	(1,460)	(5,453)
Purchases of other assets and other intangible assets	(690)	(259)
Investment in affiliate	(169)	(195)
Net cash used in investing activities	<u>(2,319)</u>	<u>(5,907)</u>
Cash flows from financing activities:		
Purchases of Company's common stock	—	(8,290)
Net cash used in financing activities	<u>—</u>	<u>(8,290)</u>
Effect of exchange rates on cash	95	(1,252)
Net decrease in cash and cash equivalents	(13,143)	(25,085)
Cash and cash equivalents, beginning of period	47,000	66,261
Cash and cash equivalents, end of period	<u>\$ 33,857</u>	<u>\$ 41,176</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 368	\$ 2,817
Noncash Transactions:		
Return of common stock in lieu of tax withholdings and option exercises	\$ 308	\$ 299

See accompanying notes to condensed consolidated financial statements.

## Notes to Consolidated Financial Statements

### 1. Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared by Build-A-Bear Workshop, Inc. and its subsidiaries (collectively, the "Company") pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet of the Company as of January 3, 2009 was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and reflect all adjustments which are, in the opinion of management, necessary to summarize fairly the financial position of the Company and the results of the Company's operations and cash flows for the periods presented. All of these adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Because of the seasonal nature of the Company's operations, results of operations of any single reporting period should not be considered as indicative of results for a full year. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended January 3, 2009 included in the Company's annual report on Form 10-K filed with the SEC on March 19, 2009.

### 2. Goodwill

Goodwill is accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "*Business Combinations*" and is reported as a component of the Company's retail segment. The following table summarizes the changes in goodwill for the thirteen weeks ended April 4, 2009 (in thousands):

Balance as of January 3, 2009	\$30,480
Effect of foreign currency translation	363
Balance as of April 4, 2009	<u>\$30,843</u>

Goodwill is not subject to amortization and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. This testing requires comparison of carrying values to fair values, and when appropriate, the carrying value of impaired assets is reduced to fair value. Goodwill will be tested for impairment no later than January 2, 2010.

### 3. Stock-based Compensation

The Company accounts for stock-based compensation in accordance with SFAS 123R, *Share-Based Payment*, using the modified prospective method. The Company uses the straight-line expense attribution method for all stock-based compensation awards with graded vesting.

For the thirteen weeks ended April 4, 2009, selling, general and administrative expense includes \$0.9 million (\$0.6 million after tax) of stock-based compensation expense. For the thirteen weeks ended March 29, 2008, selling, general and administrative expenses includes \$0.9 million (\$0.6 million after tax) of stock-based compensation expense.

As of April 4, 2009, there was \$9.4 million of total unrecognized compensation expense related to nonvested restricted stock and option awards which is expected to be recognized over a weighted-average period of 1.9 years.

### 4. Stock Incentive Plans

In 2000, the Company adopted the Build-A-Bear Workshop, Inc. 2000 Stock Option Plan. In 2003, the Company adopted the Build-A-Bear Workshop, Inc. 2002 Stock Incentive Plan, and, in 2004, the Company adopted the Build-A-Bear Workshop, Inc. 2004 Stock Incentive Plan (collectively, the Plans).

Under the Plans, as amended, up to 3,700,000 shares of common stock were reserved and may be granted to employees and nonemployees of the Company. The Plans allow for the grant of incentive stock options, nonqualified stock options and restricted stock. Options granted under the Plans expire no later than 10 years from the date of the grant. The exercise price of each incentive stock option shall not be less than 100% of the fair value of the stock subject to the option on the date the option is granted. The exercise price of the nonqualified options shall be determined from time to time by the compensation committee of the Board of Directors (the Committee). The vesting provision of individual awards is at the discretion of the Committee and generally ranges from one to four years.

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On March 17, 2009, the Board of Directors adopted, subject to stockholder approval at the Company's annual meeting of stockholders on May 14, 2009, certain amendments to the Amended and Restated 2004 Stock Incentive Plan (the Amended Incentive Plan). If adopted by our stockholders, the Amended Incentive Plan amendments would, among other things: (i) provide that the number of shares authorized for issuance under the Amended Incentive Plan as of January 3, 2009 would be 3,230,000, subject to certain adjustments; (ii) expressly prohibit the use of shares withheld to satisfy tax withholding obligations for reissuance under the Amended Incentive Plan; (iii) provide a formula for the share reserve ratio of awards under the Amended Incentive Plan, including an increased ratio for certain awards; (iv) expressly prohibit the repricing of awards under the Amended Incentive Plan without the approval of stockholders; (v) revise a portion of the definition of "change in control" to state that a change in control occurs upon the occurrence of a reorganization, merger or consolidation rather than stockholder approval of such transactions; (vi) expressly state that the purchase price of all options shall be fair market value on the date of grant; (vii) limit the term of a stock appreciation right to 10 years; and (viii) provide that the Committee will administer and interpret the Amended Incentive Plan in a manner consistent with the intent to satisfy the requirements of Section 409A of the Internal Revenue Code to avoid any adverse tax results thereunder to a holder of an award.

### (a) Stock Options

The following table is a summary of the balances and activity for the Plans related to stock options for the thirteen weeks ended April 4, 2009:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding, January 3, 2009	354,772	\$ 15.98		
Granted	475,015	5.05		
Exercised	—	—		
Forfeited	10,250	20.01		
Outstanding, April 4, 2009	<u>819,537</u>	<u>\$ 9.56</u>	<u>7.6</u>	<u>\$ 928</u>
<b>Options Exercisable As Of:</b>				
April 4, 2009	<u>344,522</u>	<u>\$ 15.78</u>	<u>4.3</u>	<u>\$ 195</u>

No options were exercised in the thirteen weeks ended April 4, 2009 or March 29, 2008. The Company generally issues new shares to satisfy option exercises.

The expense recorded related to options during the thirteen weeks ended April 4, 2009 was determined using the Black-Scholes option pricing model and the provisions of Staff Accounting Bulletin (SAB) 107 and 110, which allow the use of a simplified method to estimate the expected term of "plain vanilla" options. The assumptions used in the option pricing model for the thirteen weeks ended April 4, 2009 were: (a) dividend yield of 0%; (b) volatility of 65%; (c) risk-free interest rates ranging from 2.3% to 2.4%; and (d) an expected life of 6.25 years.

### (b) Restricted Stock

The following table is a summary of the balances and activity for the Plans related to restricted stock granted as compensation to employees and directors for the thirteen weeks ended April 4, 2009:

	Number of Shares	Weighted Average Grant Date Fair Value per Award
Outstanding, January 3, 2009	713,756	\$ 13.82
Granted	518,006	5.04
Vested	165,041	18.22
Canceled or expired	35,485	13.89
Outstanding, April 4, 2009	<u>1,031,236</u>	<u>\$ 8.70</u>

The total fair value of shares vested during the thirteen weeks ended April 4, 2009 and March 29, 2008 was \$0.9 million and \$0.9 million, respectively. The above grants do not include 459,877 shares of restricted stock approved by the Committee on March 17, 2009, subject to shareholder approval of the Amended Incentive Plan.

### (c) Associate Stock Purchase Plan

In October 2004, the Company adopted an Associate Stock Purchase Plan (ASPP). Under the ASPP, substantially all full-time employees are given the right to purchase shares of the Company's common stock, subject to certain limitations, at 85% of the lesser of the fair market value on the purchase date or the beginning of each purchase period, or calendar quarter. The ASPP was terminated, effective December 31, 2008. The employees of the Company purchased 12,566 shares at \$7.68 per share through the ASPP during the 2008 first calendar quarter, which ended March 31, 2008. The purchase occurred in the Company's fiscal 2008 second quarter.

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### 5. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except share and per share data):

	Thirteen weeks ended	
	April 4, 2009	March 29, 2008
Net income (loss)	\$ (826)	\$ 6,393
Weighted average number of common shares outstanding	18,783,915	20,150,325
Effect of dilutive securities:		
Stock options	—	72,157
Restricted stock	—	22,502
Weighted average number of common shares outstanding—dilutive	18,783,915	20,244,984
Earnings (loss) per share:		
Basic:	\$ (0.04)	\$ 0.32
Diluted	\$ (0.04)	\$ 0.32

In calculating diluted earnings per share for the thirteen weeks ended April 4, 2009, options to purchase 819,537 shares of common stock were outstanding as of the end of the period, but were not included in the computation of diluted earnings per share due to their anti-dilutive effect. An additional 1,031,236 shares of restricted common stock were outstanding at the end of the period, but excluded from the calculation of diluted earnings per share due to their anti-dilutive effect.

In calculating diluted earnings per share for the thirteen weeks ended March 29, 2008, options to purchase 128,116 shares of common stock were outstanding as of the end of the period, but were not included in the computation of diluted earnings per share due to their anti-dilutive effect. An additional 659,409 shares of restricted common stock were outstanding at the end of the period, but excluded from the calculation of diluted earnings per share due to their anti-dilutive effect.

### 6. Comprehensive Income

Comprehensive loss for the thirteen weeks ended April 4, 2009 was \$0.3 million; comprehensive income for the thirteen weeks ended March 29, 2008 was \$5.7 million. The difference between comprehensive income and net income resulted from foreign currency translation adjustments on the balance sheets of subsidiaries whose functional currency is not the US Dollar.



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**7. Property and Equipment**

Property and equipment consist of the following (in thousands):

	April 4, 2009	January 3, 2009
Land	\$ 2,261	\$ 2,261
Furniture and fixtures	41,214	41,054
Computer hardware	21,865	21,665
Building	14,970	14,970
Leasehold improvements	141,832	139,723
Computer software	20,449	20,153
Construction in progress	2,885	2,820
	245,476	242,646
Less accumulated depreciation	128,145	119,453
	<u>\$ 117,331</u>	<u>\$ 123,193</u>

**8. Income Taxes**

The Company accounts for uncertainty in income taxes in accordance with Financial Standards Accounting Board Interpretation No. 48 *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). As of April 4, 2009 and January 3, 2009, there were approximately \$1.0 million, of unrecognized tax benefits. During the next twelve months, it is reasonably possible to reduce unrecognized tax benefits by \$0.4 million either because the tax positions are sustained on audit or expiration of the statute of limitations.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of April 4, 2009 and January 3, 2009, there was approximately \$0.2 million of accrued interest related to uncertain tax positions.

## 9. Segment Information

The Company's operations are conducted through three operating segments consisting of retail, international franchising, and licensing and entertainment. The retail segment includes the operating activities of company-owned stores in the United States, Canada, the United Kingdom, Ireland, France and other retail delivery operations, including the Company's web store and non-traditional store locations such as baseball ballparks. The international franchising segment includes the licensing activities of the Company's franchise agreements with store locations in Europe, outside of France, Asia, Australia and Africa. The licensing and entertainment segment has been established to market the naming and branding rights of the Company's intellectual properties for third party use. The operating segments have discrete sources of revenue, different capital structures and different cost structures. These operating segments represent the basis on which the Company's chief operating decision maker regularly evaluates the business in assessing performance, determining the allocation of resources and the pursuit of future growth opportunities. Accordingly, the Company has determined that each of its operating segments represent one reportable segment. The reportable segments follow the same accounting policies used for the Company's consolidated financial statements.

Following is a summary of the financial information for the Company's reportable segments (in thousands):

	Retail	International Franchising	Licensing & Entertainment	Total
<b>Thirteen weeks ended April 4, 2009</b>				
Net sales to external customers	\$ 96,316	\$ 597	\$ 429	\$ 97,342
Income (loss) before income taxes	(1,692)	244	342	(1,106)
Capital expenditures, net	2,089	61	—	2,150
Depreciation and amortization	6,925	114	—	7,039
<b>Thirteen weeks ended March 29, 2008</b>				
Net sales to external customers	\$ 121,854	\$ 1,249	\$ 704	\$ 123,807
Income before income taxes	8,850	778	520	10,148
Capital expenditures, net	5,594	118	—	5,712
Depreciation and amortization	6,786	214	2	7,002
<b>Total Assets as of:</b>				
April 4, 2009	\$ 263,305	\$ 2,804	\$ 2,936	\$ 269,045
March 29, 2008	\$ 308,797	\$ 2,512	\$ 2,192	\$ 313,501

The Company's reportable segments are primarily determined by the types of products and services that they offer. Each reportable segment may operate in many geographic areas. The Company allocates revenues to geographic areas based on the location of the customer or franchisee. The following schedule is a summary of the Company's sales to external and long-lived assets by geographic area (in thousands):

	North America (1)	Europe (2)	Other (3)	Total
<b>Thirteen weeks ended April 4, 2009</b>				
Net sales to external customers	\$ 82,637	\$ 14,108	\$ 597	\$ 97,342
Property and equipment, net	103,931	13,399	1	117,331
<b>Thirteen weeks ended March 29, 2008</b>				
Net sales to external customers	\$ 106,185	\$ 16,373	\$ 1,249	\$ 123,807
Property and equipment, net	116,616	20,234	6	136,856

(1) North America includes company-owned stores in the United States, Canada and Puerto Rico

(2) Europe includes company-owned stores in the United Kingdom, Ireland and France

(3) Other includes franchise businesses outside of the United States, Canada, Puerto Rico, the United Kingdom, Ireland and France

## 10. Investment in Affiliate

The Company holds a minority interest in Ridemakerz, LLC, which is accounted for under the equity method. Ridemakerz is an early-stage company that has developed an interactive retail concept that allows children and families to build and customize their own personalized cars. In 2006, the Company invested \$0.6 million, which represented an ownership interest of approximately 10%. The Company invested an additional \$2.4 million in 2007. The Company also entered into a series of agreements whereby the

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Company agreed to perform advisory and operational support services for Ridemakerz in exchange for additional equity. The Company received \$0.2 million in equity in exchange for support services provided in the thirteen weeks ended April 4, 2009 and March 29, 2008. The Company also purchased a call option from a group of other Ridemakerz investors for \$150,000 for 1.25 million Ridemakerz common units at an exercise price of \$1.25 per unit. The call option was immediately exercisable and expires April 30, 2012. Simultaneously, the Company granted a put option to the same group of investors for 1.25 million common units at an exercise price of \$0.50 per unit. The put option was exercisable on April 30, 2008 and expires on April 30, 2012. As of April 4, 2009, the investment in Ridemakerz was approximately \$7.9 million, which represented an ownership interest of approximately 25%. Under current agreements, the Company is the sole member of an equity class that is allocated losses only following the allocation of losses to all other common and preferred equity holders to the extent of their capital contributions. Accordingly, the Company will not be allocated any losses until all of the priority equity members' capital has been reduced to zero. As such, in the thirteen weeks ended April 4, 2009 or March 29, 2008, no share of losses had been allocated to the Company because the priority equity capital accounts had not been reduced to zero in those periods. Under the current agreements, Build-A-Bear Workshop, Inc. could own up to approximately 38% of fully diluted equity in Ridemakerz.

As of April 4, 2009 and January 3, 2009, outstanding receivables from Ridemakerz were \$0.6 million and \$0.4 million, respectively.

### **11. Closure of Friends 2B Made Concept**

In 2008, the Company announced plans to close its Friends 2B Made concept, a line of make-your-own dolls and related products. The closure plan affects the Company's nine Friends 2B Made locations, all but one of which is inside or adjacent to a Build-A-Bear Workshop store, separate Friends 2B Made fixtures in approximately 50 Build-A-Bear Workshop stores, and the concept's website, [www.friends2bmade.com](http://www.friends2bmade.com). While the Company expects to complete the closures by the end of the third quarter of fiscal 2009, the specific timing of the closures is dependent on finalizing third-party agreements and is therefore subject to change. During the thirteen weeks ended April 4, 2009, the Company recorded a pre-tax charge of \$0.5 million related to the closures, which consisted primarily of lease termination charges and is included in "Store closing" expenses in the Consolidated Statements of Operations. This charge is a component of net income before income taxes in the retail segment. In addition to the charges already recorded, the Company expects to incur pre-tax charges of approximately \$1.4 to \$1.8 million through the third quarter of fiscal 2009. The majority of these charges are attributable to potential lease termination costs and other potential costs associated with the closure plan.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. These risks and uncertainties include, without limitation, those detailed under the caption "Risk Factors" in our annual report on Form 10-K for the year ended January 3, 2009, as filed with the SEC, and the following: general economic conditions may continue to deteriorate, which could lead to disproportionately reduced consumer demand for our products, which represent relatively discretionary spending; our consolidated financial results may be significantly affected by foreign currency exchange rates; customer traffic may continue to decrease in the shopping malls where we are located, on which we depend to attract guests to our stores; we may be unable to generate interest in and demand for our interactive retail experience, or to identify and respond to consumer preferences in a timely fashion; our marketing and online initiatives may not be effective in generating sufficient levels of brand awareness and guest traffic; we may be unable to generate comparable store sales growth; we may be unable to open new stores or may be unable to effectively manage our growth; losses incurred by our affiliate Ridemakerz LLC may adversely affect our financial condition and profitability; we may be unable to close our Friends 2B Made concept on terms we currently anticipate; we may be unable to effectively manage our international franchises or laws relating to those franchises may change; we may be unable to renew or replace our store leases, or enter into leases for new stores on favorable terms or in favorable locations, or may violate the terms of our current leases; the ability of our principal vendors to deliver merchandise may be disrupted; the availability and costs of our products could be adversely affected by risks associated with international manufacturing and trade; high petroleum products prices could increase our inventory transportation costs and adversely affect our profitability; we may be unable to repurchase shares at all or at the times or in the amounts we currently anticipate or the results of the share repurchase program may not be as beneficial as we currently anticipate; fluctuations in our quarterly results of operations could cause the price of our common stock to substantially decline; we may suffer negative publicity or be sued due to violations of labor laws or unethical practices by manufacturers of our merchandise; we may improperly obtain or be unable to protect information from our guests in violation of privacy or security laws or expectations; our products could become subject to recalls or product liability claims that could adversely impact our financial performance and harm our reputation among consumers; we may lose key personnel, be unable to hire qualified additional personnel, or experience turnover of our management team; we may be unable to realize the anticipated benefits from our company-owned distribution center or our third-party distribution center providers may perform poorly; we may be unable to realize some of the expected benefits of the acquisition of Amsbra and Bear Factory, and the inclusion of France as a Company-owned country; our market share could be adversely affected by a significant, or increased, number of competitors; we may fail to renew, register or otherwise protect our trademarks or other intellectual property; and we may have disputes with, or be sued by, third parties for infringement or misappropriation of their proprietary rights. These risks, uncertainties and other factors may adversely affect our business, growth, financial condition or profitability, or subject us to potential liability, and cause our actual results, performance or achievements to be materially different from those expressed or implied by our forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### Overview

We are the leading, and only international, company providing a "make your own stuffed animal" interactive entertainment experience under the Build-A-Bear Workshop brand, in which our guests stuff, fluff, dress, accessorize and name their own teddy bears and other stuffed animals. Our concept, which we developed primarily for mall-based retailing, capitalizes on what we believe is the relatively untapped demand for experience-based shopping as well as the widespread appeal of stuffed animals. The Build-A-Bear Workshop experience appeals to a broad range of age groups and demographics, including children, teens, their parents and grandparents.

As of April 4, 2009, we operated 292 stores in the United States, Canada, and Puerto Rico, 54 stores in the United Kingdom, Ireland and France, and had 60 franchised stores operating internationally under the Build-A-Bear Workshop brand. In addition to our stores, we market our products and build our brand through our website, which simulates our interactive shopping experience, as well as non-traditional store locations in five Major League Baseball® parks, one location in a zoo and one location in a science center. Seasonal locations, such as ballparks and zoos, are excluded from our store count.

On April 2, 2006, the Company acquired all of the outstanding shares of The Bear Factory Limited (Bear Factory), a stuffed animal retailer in the United Kingdom, and Amsbra Limited (Amsbra), the Company's former U.K. franchisee (collectively, the U.K. Acquisition). The results of the U.K. Acquisition operations have been included in the Company's consolidated financial statements since that date. In conjunction with those transactions, we obtained 40 retail locations in the United Kingdom and Ireland. Four of those locations closed during 2006. Of those four locations, two closed due to overlapping store locations in the Amsbra and Bear Factory portfolios, and the other two locations were concessions within department stores which was a format we chose not to continue. In 2007, the Company expanded its Company-owned store base to France, which was previously under a franchise agreement and had one store within a department store in operation that was subsequently closed. The Company is now operating three Company-owned stores in France.

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We operate in three reportable segments (retail, international franchising, and licensing and entertainment) that share the same infrastructure, including management, systems, merchandising and marketing, and generate revenues as follows:

- Company-owned retail stores located in the United States, Canada, Puerto Rico, the United Kingdom, Ireland, France, all non-traditional store locations and three e-commerce websites or “webstores”;
- International stores operated under franchise agreements; and
- License arrangements with third parties that manufacture and sell to other retailers merchandise carrying the Build-A-Bear Workshop brand.

Selected financial data attributable to each segment for the thirteen weeks ended April 4, 2009 and March 29, 2008 are set forth in the notes to our condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

Store contribution, for our consolidated operations, was 13.6% for the thirteen weeks ended April 4, 2009 and 21.1% for the thirteen weeks ended March 29, 2008 and consolidated net loss as a percentage of total revenues was 0.8% for the thirteen weeks ended April 4, 2009 and consolidated net income as a percentage of total revenues was 5.2% for the thirteen weeks ended March 29, 2008. See “— Non-GAAP Financial Measures” for a definition of store contribution and a reconciliation of store contribution to net income. The decrease in our store contribution over the prior year was primarily due to the decline in gross margin, resulting primarily from a lack of leverage on fixed occupancy costs in the North American operations and the decline in merchandise margin resulting from the value pricing initiatives and the impact of foreign currency translation, partially offset by improved occupancy leverage in Europe, a reduction in fuel surcharges, and operating efficiencies in our distribution and warehousing operations.

We use comparable store sales as one of the performance measures for our business. Comparable store sales percentage changes are based on net retail sales, excluding our webstore and seasonal and event-based locations. Stores are considered comparable beginning in their thirteenth full month of operation. The percentage change in comparable store sales for the periods presented below is as follows:

	Thirteen Weeks Ended	
	April 4, 2009	March 29, 2008
North America	(20.5)%	(13.1)%
Europe	5.6%	14.5%
Consolidated	(17.8)%	(10.5)%

We believe the decline in comparable store sales for the periods presented is primarily attributable to the following factors:

- We believe that the economic recession and dramatic decrease in consumer wealth which has resulted in a significant decline in consumer sentiment and a pullback in consumer spending has impacted our comparable stores sales.
- We believe the slow down in shopping mall customer traffic during the fiscal 2009 first quarter compared to the same period in fiscal 2008 has impacted the number of new and returning guests visiting our stores and therefore our comparable store sales.
- We believe the calendar shift of the Easter holiday and associated school vacations from the fiscal 2008 first quarter to the fiscal 2009 second quarter impacted our comparable store sales.

The Company is addressing the decline in comparable store sales with the following key initiatives:

- Through our ongoing marketing and merchandising we are balancing initiatives to attract new guests and retain existing guests. Understanding that today our customers are more value oriented in their purchase decisions, we have expanded our assortment of products priced at \$10 and \$12.
- We are developing new marketing programs and enhancing existing programs to communicate the value of our products as well as our unique position of having both a real world and virtual world experience. Accordingly, we are refining our communication strategies and reallocating our marketing spending to match changing consumer shopping patterns and to lengthen the time of key promotions.
- We are leveraging Buildabearville.com to drive traffic to our stores and to increase brand engagement and brand loyalty through increased awareness and conversion and an expanded assortment of virtual world game cards (Bear Bills) for sale in our stores and online.

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- Implementing cost reduction plans expected to result in \$15 million in annualized pre-tax savings in 2009.
- Slowing new store growth in 2009 to one new store, down from 25 new stores in 2008, which allows us to refocus on our business and align all operations around our goals of new guest acquisition and guest retention aimed at improving our comparable stores sales performance.

### Expansion and Growth Potential

#### Retail Stores:

The table below sets forth the number of Build-A-Bear Workshop Company-owned stores in the United States, Canada, the United Kingdom, Ireland, and France for the periods presented:

	Thirteen weeks ended	
	March 29, 2008	March 31, 2007
Beginning of period	346	321
Opened	—	4
Closed	—	—
End of period	<u>346</u>	<u>325</u>

During fiscal 2009, we anticipate opening one Build-A-Bear Workshop store in North America. We believe there is a market potential for at least 350 Build-A-Bear Workshop stores in the United States and Canada and approximately 70 to 75 stores in the United Kingdom and Ireland.

We also have store locations for our proprietary “Friends 2B Made” line of make-your-own dolls and related products. As of April 4, 2009, we operated one stand-alone Friends 2B Made store and seven Friends 2B Made stores adjacent to Build-A-Bear Workshop stores in the United States. Other than the one stand-alone store, these Friends 2B Made stores are not included in our store count, but rather are considered expansions of existing Build-A-Bear Workshop stores. In the fiscal 2008 third quarter, we announced plans to close the Friends 2B Made concept.

#### Non-Traditional Store Locations:

In fiscal 2004, we began offering merchandise in seasonal, event-based locations such as Major League Baseball® ballparks. We expect to expand our future presence at select seasonal, event-based locations contingent on their availability. As of April 4, 2009, we had a total of five ballpark locations, one store within a zoo and one store within a science center. Seasonal locations, such as ballparks and zoos are excluded from our store count.

#### International Franchise Revenue:

Our first franchised location opened in November 2003. The number of international, franchised stores for the periods presented below can be summarized as follows:

	Thirteen weeks ended	
	April 4, 2009	March 29, 2008
Beginning of period	62	53
Opened	1	4
Closed	(3)	(5)
End of period	<u>60</u>	<u>52</u>

As of April 4, 2009, we had master franchise agreements, which typically grant franchise rights for a particular country or countries, covering 20 countries. We anticipate signing additional master franchise agreements in the future. We expect our franchisees to open 5 to 10 stores in fiscal 2009, net of closures. We believe there is a market potential for approximately 300 franchised stores outside of the United States, Canada, Puerto Rico, the United Kingdom, Ireland and France.

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### Results of Operations

The following table sets forth, for the periods indicated, selected statement of income data expressed as a percentage of total revenues, except where otherwise indicated. Percentages will not total due to the cost of merchandise sold being expressed as a percentage of net retail sales and immaterial rounding:

	Thirteen weeks ended	
	April 4, 2009	March 29, 2008
Revenues:		
Net retail sales	98.9%	98.4%
Franchise fees	0.6	1.0
Licensing revenue	0.4	0.6
Total revenues	<u>100.0</u>	<u>100.0</u>
Costs and expenses:		
Cost of merchandise sold (1)	63.4	56.4
Selling, general and administrative	37.9	36.2
Store preopening	—	0.4
Store closing	0.5	—
Interest expense (income), net	0.0	(0.4)
Total costs and expenses	<u>101.1</u>	<u>91.8</u>
Income (loss) before income taxes	(1.1)	8.2
Income tax expense (benefit)	(0.3)	3.0
Net income (loss)	<u>(0.8)%</u>	<u>5.2%</u>
Gross Margin % (2)	36.6%	43.6%

(1) Cost of merchandise sold is expressed as a percentage of net retail sales.

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

#### **Thirteen weeks ended April 4, 2009 compared to thirteen weeks ended March 29, 2008**

**Total revenues.** Net retail sales decreased to \$96.3 million for the thirteen weeks ended April 4, 2009 from \$121.8 million for the thirteen weeks ended March 29, 2008, a decrease of \$25.5 million, or 21%. This decline was primarily attributable to an \$18.8 million decline in comparable store sales, a \$5.7 million negative impact of foreign currency translation and a \$6.2 million impact of the shift in the weeks included in the fiscal 2009 first quarter as compared to the fiscal 2008 first quarter. These declines were partially offset by a \$5.6 million increase in sales from new stores. Other changes in net retail sales totaled \$0.4 million and included decreased sales from non-store locations, partially offset by deferred revenue adjustment.

We believe the decline in comparable store sales for the periods presented is primarily attributable to the following factors:

- We believe that the economic recession and dramatic decrease in consumer wealth which has resulted in a significant decline in consumer sentiment and a pullback in consumer spending has impacted our comparable stores sales.
- We believe the slow down in shopping mall customer traffic during the fiscal 2009 first quarter compared to the same period in fiscal 2008 has impacted the number of new and returning guests visiting our stores and therefore our comparable store sales.
- We believe the calendar shift of the Easter holiday and associated school vacations from the fiscal 2008 first quarter to the second quarter in fiscal 2009 impacted our comparable store sales.

Revenue from franchise fees decreased to \$0.6 million for the thirteen weeks ended April 4, 2009 from \$1.2 million for the thirteen weeks ended March 29, 2008, a decrease of \$0.6 million. This decrease was primarily due to the decline in franchisee store sales reflecting the global economic slowdown. Revenue from licensing decreased to \$0.4 million for the thirteen weeks ended April 4, 2009 from \$0.7 million for the thirteen weeks ended March 29, 2008, a decrease of \$0.3 million. This decrease was primarily related to a change in the mix of licensed products.

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*Gross margin.* Gross margin decreased to \$35.3 million for the thirteen weeks ended April 4, 2009 from \$53.1 million for the thirteen weeks ended March 29, 2008, a decrease of \$17.8 million, or 33.5%. As a percentage of net retail sales, gross margin declined to 36.6% for the thirteen weeks ended April 4, 2009 from 43.6% for the thirteen weeks ended March 29, 2008, a decrease of 700 basis points as a percentage of net retail sales (“bps”). The decline in gross margin was primarily attributable to a lack of leverage on fixed occupancy costs in the North American operations and the decline in merchandise margin resulting from the value pricing initiatives and the impact of foreign currency translation, partially offset by improved occupancy leverage in Europe, a reduction in fuel surcharges, and operating efficiencies in our distribution and warehousing operations.

*Selling, general and administrative.* Selling, general and administrative expenses were \$36.9 million for the thirteen weeks ended April 4, 2009 as compared to \$44.8 million for the thirteen weeks ended March 29, 2008, a decrease of \$7.9 million, or 17.6%. As a percentage of total revenues, selling, general and administrative expenses increased to 37.9% for the thirteen weeks ended April 4, 2009 as compared to 36.2% for the thirteen weeks ended March 29, 2008, an increase of 170 bps. The dollar decrease was primarily due to cost reduction efforts put into place to align our cost structure with the downturn we are experiencing in consumer spending even though we had 21 more stores in operation at April 4, 2009 as compared to March 29, 2008. The increase in selling, general and administrative expenses as a percent of revenue was primarily due to deleveraging of fixed components of overhead costs, specifically, central office expense, store payroll, and depreciation.

*Store preopening.* We had no store preopening expense for the thirteen weeks ended April 4, 2009 as compared to \$0.6 million for the thirteen weeks ended March 29, 2008. The decrease in store preopening for the period was the result of timing of store preopening activities. We expect to open no stores during the fiscal 2009 second quarter as compared to five stores opened during the same period in fiscal 2008. Preopening expenses include expenses for stores that opened in the current period as well as some expenses incurred for stores that will be opened in future periods.

*Store closing.* Store closing expense was \$0.5 million for the thirteen weeks ended April 4, 2009 and consisted primarily of lease termination charges related to the closure of the friends 2B made concept.

*Interest expense (income), net.* Interest income, net of interest expense, was \$24,000 and \$0.5 million for the thirteen weeks ended April 4, 2009 and March 29, 2008, respectively. The decrease was the result of lower cash balances and lower interest rates.

*Provision for income taxes.* The income tax benefit was \$0.3 million for the thirteen weeks ended April 4, 2009 as compared to the provision for income taxes of \$3.8 million for the thirteen weeks ended March 29, 2008. The effective tax rate was 25.4% for the thirteen weeks ended April 4, 2009 compared to 37.0% for the thirteen weeks ended March 29, 2008. The decrease in the effective tax rate was primarily attributable to the impact of combining domestic losses with losses in a foreign jurisdiction for which no tax benefit may be recognized.



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**Non-GAAP Financial Measures**

We use the term “store contribution” in this quarterly report on Form 10-Q. Store contribution consists of income before income tax expense, interest, store depreciation and amortization, store preopening expense and general and administrative expense, excluding franchise fees, income from licensing activities and contribution from our webstore and seasonal and event-based locations. This term, as we define it, may not be comparable to similarly titled measures used by other companies and is not a measure of performance presented in accordance with U.S. generally accepted accounting principles (GAAP).

We use store contribution as a measure of our stores’ operating performance. Store contribution should not be considered a substitute for net income, net income per store, cash flows provided by operating activities, cash flows provided by operating activities per store, or other income or cash flow data prepared in accordance with GAAP. We believe store contribution is useful to investors in evaluating our operating performance because it, along with the number of stores in operation, directly impacts our profitability.

The following table sets forth a reconciliation of store contribution to net income for our company-owned stores located in the United States, Canada and Puerto Rico (North America), stores located the United Kingdom, Ireland and France (Europe) and for our consolidated store base (in thousands):

	Thirteen weeks ended April 4, 2009			Thirteen weeks ended March 29, 2008		
	North America	Europe	Total	North America	Europe	Total
Net income (loss)	\$ (104)	\$ (722)	\$ (826)	\$ 6,537	\$ (144)	\$ 6,393
Income tax expense (benefit)	(120)	(160)	(280)	3,755	—	3,755
Interest expense (income)	(4)	(20)	(24)	(341)	(119)	(460)
Store depreciation, amortization and impairment (1)	4,373	637	5,010	4,472	812	5,284
Store preopening expense	—	—	—	335	218	553
Store closing (2)	501	—	501	—	—	—
General and administrative expense (3)	8,890	879	9,769	10,865	294	11,159
Franchising and licensing contribution (4)	(700)	—	(700)	(1,513)	—	(1,513)
Non-store activity contribution (5)	(615)	(117)	(732)	(241)	(92)	(333)
Store contribution	<u>\$12,221</u>	<u>\$ 497</u>	<u>\$12,718</u>	<u>\$ 23,869</u>	<u>\$ 969</u>	<u>\$ 24,838</u>
Total revenues	<u>\$83,234</u>	<u>\$14,108</u>	<u>\$97,342</u>	<u>\$107,434</u>	<u>\$16,373</u>	<u>\$123,807</u>
Franchising and licensing revenues from external customers	(1,026)	—	(1,026)	(1,953)	—	(1,953)
Revenues from non-store activities from external customers (5)	(2,638)	(432)	(3,070)	(3,698)	(287)	(3,985)
Store location net retail sales	<u>\$79,570</u>	<u>\$13,676</u>	<u>\$93,246</u>	<u>\$101,783</u>	<u>\$16,086</u>	<u>\$117,869</u>
Store contribution as a percentage of store location net retail sales	<u>15.4%</u>	<u>3.6%</u>	<u>13.6%</u>	<u>23.5%</u>	<u>6.0%</u>	<u>21.1%</u>
Total net income (loss) as a percentage of total revenues	<u>(0.1)%</u>	<u>(5.1)%</u>	<u>(0.8)%</u>	<u>6.1%</u>	<u>(0.9)%</u>	<u>5.2%</u>

- (1) Store depreciation, amortization and impairment includes depreciation and amortization of all capitalized assets in store locations, including leasehold improvements, furniture and fixtures, and computer hardware and software and store asset impairment charges, included in cost of merchandise sold.
- (2) Store closing expense represents asset impairment and other charges related to the closure of the friends 2B made concept.
- (3) General and administrative expenses consist of non-store, central office general and administrative functions such as management payroll and related benefits, travel, information systems, accounting, purchasing and legal costs as well as the depreciation and amortization of central office leasehold improvements, furniture and fixtures, computer hardware and software, including assets related to the virtual world, and intellectual property. General and administrative expenses also include a central office marketing department, primarily payroll and related benefits expense, but exclude advertising expenses, such as direct mail catalogs and television advertising, which are included in store contribution.

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- (4) Franchising and licensing contribution includes franchising and licensing revenues and all expenses attributable to the international franchising and licensing and entertainment segments other than depreciation, amortization and interest expense/income. Depreciation and amortization related to franchising and licensing is included in the general and administrative expense caption. Interest expense/income related to franchising and licensing is included in the interest expense (income) caption.
- (5) Non-store activities include our webstores, and seasonal and event-based locations as well as intercompany transfer pricing charges.

### **Seasonality and Quarterly Results**

Our operating results for one period may not be indicative of results for other periods, and may fluctuate significantly because of a variety of factors, including: (1) the timing of our new store openings and related expenses; (2) fluctuations in the profitability of our stores; (3) increases or decreases in our comparable store sales; (4) the timing and frequency of our marketing initiatives; (5) changes in general economic conditions and consumer spending patterns; (6) changes in consumer preferences; (7) the effectiveness of our inventory management; (8) the actions of our competitors or mall anchors and co-tenants; (9) seasonal shopping patterns and holiday and vacation schedules; (10) the timing and frequency of national media appearances and other public relations events; and (11) weather conditions.

The timing of new store openings may result in fluctuations in quarterly results as a result of the revenues and expenses associated with each new store location. We typically incur most preopening costs for a new store in the three months immediately preceding the store's opening. We expect our growth, operating results and profitability to depend in some degree on our ability to increase our number of stores.

Historically, for North American stores open more than twelve months, seasonality has not been a significant factor in our results of operations, although we cannot assure you that this will continue to be the case. European-based store sales have historically been weighted more heavily in the fourth quarter as compared to North American stores. In addition, for accounting purposes, the quarters of each fiscal year consist of 13 weeks, although we will have a 14-week quarter approximately once every six years. The 2008 fiscal fourth quarter had 14 weeks.

### **Liquidity and Capital Resources**

Our cash requirements are primarily for the opening of new stores, information systems and working capital. Historically, we have met these requirements through cash flow provided by operations, capital generated from the sale and issuance of our securities to private investors and through our initial public offering, and our revolving line of credit.

*Operating Activities.* Cash used in operating activities was \$10.9 million for the thirteen weeks ended April 4, 2009 as compared with cash used in operating activities of \$9.6 million for the thirteen weeks ended March 29, 2008, or an increase of \$1.3 million. This increase of cash used in operating activities over the year ago period was primarily due to the net loss of \$0.8 million in the thirteen weeks ended April 4, 2009 as compared to net income of \$6.4 million in the thirteen weeks ended March 29, 2008 partially offset by overall reductions in inventory levels.

*Investing Activities.* Cash used in investing activities was \$2.3 million for the thirteen weeks ended April 4, 2009 as compared to \$5.9 million for the thirteen weeks ended March 29, 2008. Cash used in investing activities during the thirteen weeks ended April 4, 2009 primarily relates to investments in buildabearville.com and the acquisition of trademarks and other intellectual property. Cash used in investing activities during the thirteen weeks ended March 29, 2008 primarily relates to new store construction costs.

*Financing Activities.* We had no cash flows from financing activities in the thirteen weeks ended April 4, 2009. Cash flows used in financing activities of \$8.3 million for the thirteen weeks ended March 29, 2008 consisted primarily of cash spent for the repurchase of the Company's common stock. No borrowings were made under our line of credit in either the thirteen weeks ended April 4, 2009 or the thirteen weeks ended March 29, 2008.

*Capital Resources.* As of April 4, 2009, we had a consolidated cash balance of \$34 million. We also have a line of credit, which we can use to finance capital expenditures, and seasonal working capital needs throughout the year. The credit agreement is with U.S. Bank, National Association and was amended effective August 11, 2008 to increase the availability for the first half of the fiscal year from \$15 million to \$40 million and the availability for the seasonal overline from \$30 million to \$50 million. The seasonal overline is in effect from July 1 to December 31 each year. Borrowings under the credit agreement are secured by our assets and a pledge of 65% of our ownership interest in our foreign subsidiaries. The credit agreement expires on December 31, 2009 and contains various restrictions on indebtedness, liens, guarantees, redemptions, mergers, acquisitions or sale of assets, loans, transactions with affiliates, and investments. It also prohibits us from declaring dividends without the bank's prior consent, unless such payment of dividends would not violate any terms of the credit agreement. Borrowings bear interest at our option of prime minus 1.0% or LIBOR plus 1.3%. Financial covenants include maintaining a minimum tangible net worth, maintaining a minimum fixed charge cover ratio (as defined in the credit agreement) and not exceeding a maximum funded debt to earnings before interest, depreciation and amortization ratio. As of April 4, 2009: (i) we were in compliance with these covenants, (ii) there were no borrowings under our line of credit, (iii) there was a standby letter of credit of approximately \$1.1 million outstanding under the credit agreement and (iv) there was approximately \$38.9 million available for borrowing under the line of credit.

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Most of our retail stores are located within shopping malls and all are operated under leases classified as operating leases. Our leases in North America typically have a ten-year term and contain provisions for base rent plus percentage rent based on defined sales levels. Many of the leases contain a provision whereby either we or the landlord may terminate the lease after a certain time, typically in the third to fourth year of the lease, if a certain minimum sales volume is not achieved. In addition, some of these leases contain various restrictions relating to change of control of our company. Our leases also subject us to risks relating to compliance with changing mall rules and the exercise of discretion by our landlords on various matters, including rights of termination in some cases.

Our leases in the U.K. and Ireland typically have terms of 10-15 years and generally contain a provision whereby every fifth year the rental rate can be adjusted to reflect the current market rates. The leases typically provide the lessee with the first right for renewal at the end of the lease. We may also be required to make deposits and rent guarantees to secure new leases as we expand. Real estate taxes also change according to government time schedules to reflect current market rental rates for the locations we lease. Rents are charged quarterly and paid in advance.

Our French leases each have terms of 10 years. French leases for premier retail properties frequently have entry fees and/or key money payments required to be made in conjunction with signature of the leases. Such entry fees or key money payments may be recovered, in whole or in part, upon disposal of the leases. The leases typically provide the lessee with the first right for renewal at the end of the lease. Rent deposits consisting of three months rent are also required to be paid on execution of the leases. Rents are negotiated on a fixed basis, but are reviewed annually in relation to an inflation index and therefore also have a variable rent component. Rents are charged quarterly and paid in advance.

In fiscal 2009, we expect to spend a total of \$9 million on capital expenditures. Capital spending through the thirteen weeks ended April 4, 2009 totaled \$2.2 million, on track with our full year plans. Capital spending in fiscal 2009 is primarily for the continued installation and upgrades of central office information technology systems, the opening of one new store, relocation of one store and the closure of our Friends 2B Made concept. In fiscal 2008, the average investment per new store in North America, which includes leasehold improvements, fixtures, equipment and inventory, was approximately \$0.4 million.

We believe that cash generated from operations and borrowings under our credit agreement will be sufficient to fund our working capital and other cash flow requirements for at least the next 18 months. Our credit agreement expires on December 31, 2009.

On March 10, 2008, we announced an expanded share repurchase program. On March 3, 2009, we announced an additional twelve month extension of this share repurchase program. We currently have the ability to purchase up to \$50 million of our common stock in the open market (including through 10b5-1 trading plans), through privately negotiated transactions, or through an accelerated repurchase transaction. The primary source of funding for the program is expected to be cash on hand. The timing and amount of share repurchases, if any, will depend on price, market conditions, applicable regulatory requirements, and other factors. The program authorizes the Company to repurchase shares over the next 12 months, does not require us to repurchase any specific number of shares, and may be modified, suspended or terminated at any time without prior notice. Shares repurchased under the program will be subsequently retired. As of May 8, 2009, approximately 1.9 million shares at an average price of \$10.21 per share have been repurchased under this program for an aggregate amount of \$19.0 million.

### **Off-Balance Sheet Arrangements**

We hold a minority interest in Ridemakerz, LLC, which is accounted for under the equity method. We purchased a call option from a group of other Ridemakerz investors for \$150,000 for 1.25 million Ridemakerz common units at an exercise price of \$1.25 per unit. The call option was immediately exercisable and expires April 30, 2012. Simultaneously, we granted a put option to the same group of investors for 1.25 million common units at an exercise price of \$0.50 per unit. The put option was exercisable on April 30, 2008 and expires on April 30, 2012. As of April 4, 2009, the investment in Ridemakerz was approximately \$7.9 million, which represented an ownership interest of approximately 25%. Under the current agreements, we could own up to approximately 38% of fully diluted equity in Ridemakerz. See Note 10 – Investment in Affiliate to the Condensed Consolidated Financial Statements for additional information.

### **Inflation**

We do not believe that inflation has had a material adverse impact on our business or operating results during the periods presented. We cannot provide assurance, however, that our business will not be affected by inflation in the future.

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires the appropriate application of certain accounting policies, which require us to make estimates and assumptions about future events and their impact on amounts reported in our financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements.

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We believe application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates, including those related to inventory, long-lived assets, goodwill and revenue recognition, are reevaluated on an ongoing basis, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

Our critical accounting policies and estimates are discussed in and should be read in conjunction with our annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 19, 2009, which includes audited consolidated financial statements for our 2008, 2007 and 2006 fiscal years. There have been no material changes to the critical accounting policies and estimates disclosed in the 2008 Form 10-K.

### **Recent Accounting Pronouncements**

There are no new accounting pronouncements for which adoption is expected to have a material effect on the Company's financial statements in future accounting periods.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Our market risks relate primarily to changes in interest rates, and we bear this risk in two specific ways. First, our revolving credit facility carries a variable interest rate that is tied to market indices and, therefore, our results of operations and our cash flows can be impacted by changes in interest rates. Outstanding balances under our credit facility bear interest at our option of prime minus 1.0% or LIBOR plus 1.3%. We had no borrowings outstanding during the first quarter of fiscal 2009. Accordingly, a 100 basis point change in interest rates would result in no material change to our annual interest expense. The second component of interest rate risk involves the short term investment of excess cash in short term, investment grade interest-bearing securities. These investments are considered to be cash equivalents and are shown that way on our balance sheet. If there are changes in interest rates, those changes would affect the investment income we earn on these investments and, therefore, impact our cash flows and results of operations.

We conduct operations in various countries, which expose us to changes in foreign exchange rates. The financial results of our foreign subsidiaries and franchisees may be materially impacted by exposure to fluctuating exchange rates. Reported sales, costs and expenses at our foreign subsidiaries, when translated into U.S. dollars for financial reporting purposes, can fluctuate due to exchange rate movement. While exchange rate fluctuations can have a material impact on reported revenues, costs and expenses, and earnings, this impact is principally the result of the translation effect and does not materially impact our short-term cash flows.

Although we enter into a significant amount of purchase obligations outside of the U.S., these obligations are settled primarily in U.S. dollars and, therefore, we believe we have only minimal exposure at present to foreign currency exchange risks for our purchase obligations. Historically, we have not hedged our currency risk and do not currently anticipate doing so in the future.

We do not engage in financial transactions for trading or speculative purposes.

### **Item 4. Controls and Procedures.**

*Disclosure Controls and Procedures:* The Company's management, with the participation of the Company's Chief Executive Bear and Chief Operations and Financial Bear, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on such evaluation, the Company's management, including the Chief Executive Bear and Chief Operations and Financial Bear, have concluded that the Company's disclosure controls and procedures were effective as of April 4, 2009, the end of the period covered by this quarterly report.

It should be noted that our management, including the Chief Executive Bear and the Chief Operations and Financial Bear, does not expect that the Company's disclosure controls and procedures or internal controls will prevent all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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*Changes in Internal Control Over Financial Reporting:* The Company's management, with the participation of the Company's Chief Executive Bear and Chief Operations and Financial Bear, also conducted an evaluation of the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the period covered by this report.

## PART II – OTHER INFORMATION

### Item 1A. Risk Factors

There have been no changes to our Risk Factors as disclosed in our Annual Report on Form 10-K for the year ended January 3, 2009 as filed with the Securities and Exchange Commission on March 19, 2009, except we have added the following risk factor:

*If our affiliate, Ridemakerz LLC, incurs sufficient losses, our financial condition and profitability could be adversely affected.*

We hold a minority interest in Ridemakerz, LLC, which is accounted for under the equity method of accounting. Ridemakerz is an early-stage company that has developed an interactive retail concept that allows children and families to build and customize their own personalized cars. As of April 4, 2009, our investment in Ridemakerz was approximately \$7.9 million, which represented an ownership interest of approximately 25%, and outstanding receivables from Ridemakerz were \$0.6 million. Under current agreements, we are the sole member of an equity class that is allocated losses only following the allocation of losses to all other common and preferred equity holders to the extent of their capital contributions. Accordingly, we will not be allocated any losses until all of the priority equity members' capital has been reduced to zero. If Ridemakerz incurs sufficient losses, however, we would be required to recognize a portion of its losses and we could be required to write off our receivables from Ridemakerz. Additionally, if we determine that we may be unable to recover the carrying amount of our investment, we could be required to record impairment charges.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### ISSUER PURCHASES OF EQUITY SECURITIES

<u>Period</u>	<u>(a) Total Number of Shares (or Units) Purchased</u>	<u>(b) Average Price Paid Per Share (or Unit)</u>	<u>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</u>
Jan. 4, 2009 – Jan. 31, 2009 (1)	408	\$ 4.89	—	\$ 30,987,972
Feb. 1, 2009 – Feb. 28, 2009	—	—	—	\$ 30,987,972
Mar. 1, 2009 – Apr. 4, 2009 (1)	61,640	\$ 5.10	—	\$ 30,987,972
<b>Total</b>	<u>62,048</u>	<u>\$ 5.10</u>	<u>—</u>	<u>\$ 30,987,972</u>

- (1) Represents shares of our common stock delivered to us in satisfaction of the tax withholding obligation of holders of restricted shares which vested during the quarter. Our equity incentive plans provide that the value of shares delivered to us to pay the withheld to cover tax obligations is calculated as the average of the high and low trading price of our common stock on the date the relevant transaction occurs.
- (2) On March 3, 2009, we announced an extension of our \$50 million share repurchase program of our outstanding common stock over the next twelve months. The program was authorized by our board of directors. Purchases may be made in the open market or in privately negotiated transactions, with the level and timing of activity depending on market conditions, applicable regulatory requirements, and other factors. Purchases may be increased, decreased or discontinued at any time without notice. Shares purchased under the program were subsequently retired.

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### Item 6. Exhibits

The following is a list of exhibits filed as a part of the quarterly report on Form 10-Q:

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger dated April 3, 2000 between Build-A-Bear Workshop, L.L.C. and the Registrant (incorporated by reference from Exhibit 2.1 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
3.1	Third Amended and Restated Certificate of Incorporation (incorporated by reference from Exhibit 3.1 of our Current Report on Form 8-K, filed on November 11, 2004)
3.2	Amended and Restated Bylaws (incorporated by reference from Exhibit 3.4 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
4.1	Specimen Stock Certificate (incorporated by reference from Exhibit 4.1 to Amendment No. 3 to our Registration Statement on Form S-1, filed on October 1, 2004, Registration No. 333-118142)
4.2	Stock Purchase Agreement by and among the Registrant, Catterton Partners IV, L.P., Catterton Partners IV Offshore, L.P. and Catterton Partners IV Special Purpose, L.P. and the Purchasers named therein dated as of April 3, 2000 (incorporated by reference from Exhibit 4.2 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
4.3	Stock Purchase Agreement by and among the Registrant and the other Purchasers named therein dated as of September 21, 2001 (incorporated by reference from Exhibit 4.3 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
4.4	Amended and Restated Registration Rights Agreement, dated September 21, 2001 by and among Registrant and certain stockholders named therein (incorporated by reference from Exhibit 4.5 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
10.1*	Form of Restricted Stock and Non-Qualified Stock Option Grant Agreement under the Build-A-Bear Workshop, Inc. 2004 Stock Incentive Plan
10.2*	Employment, Confidentiality and Noncompete Agreement dated as of March 16, 2009 between John Haugh and the Registrant
31.1	Rule 13a-14(a)/15d-14(a) certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the Chief Executive Bear)
31.2	Rule 13a-14(a)/15d-14(a) certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the Chief Operations and Financial Bear)
32.1	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the Chief Executive Bear)
32.2	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the Chief Operations and Financial Bear)

\* Management contract or compensatory plan or arrangement.

**SIGNATURES**

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

Date: May 14, 2009

BUILD-A-BEAR WORKSHOP, INC.  
(Registrant)

By: /s/ Maxine Clark  
Maxine Clark  
Chairman of the Board and Chief Executive Bear

By: /s/ Tina Klocke  
Tina Klocke  
Chief Operations and Financial Bear, Treasurer and  
Secretary

**BUILD-A-BEAR WORKSHOP, INC.  
RESTRICTED STOCK &  
NON-QUALIFIED STOCK OPTION  
AGREEMENT**

Date of Grant: March 17, 2009  
 Employee: \_\_\_\_\_  
 No. of Shares of Restricted Stock: \_\_\_\_\_  
 No. of Shares Subject to Option: \_\_\_\_\_  
 Exercise Price of Option: \$ \_\_\_\_\_

This Agreement will certify that the employee named above (“**Employee**”) is awarded the number of restricted shares of common stock, \$0.01 par value per share (the “**Common Stock**”), of Build-A-Bear Workshop, Inc. (the “**Company**”) designated above (the “**Restricted Stock**”), and an option to purchase the number of shares of Company Common Stock designated above (the “**Option**”), pursuant to the Build-A-Bear Workshop, Inc. 2004 Stock Incentive Plan, as amended through the date hereof (the “**Plan**”), as of the date indicated above (the “**Grant Date**”) and subject to the terms, conditions and restrictions in the Plan and those set forth below. Any capitalized, but undefined, term used in this Agreement shall have the meaning ascribed to it in the Plan. Employee’s electronic acceptance within 60 days on his/her personal Merrill Lynch account constitutes Employee’s acceptance of this award and acknowledgement of Employee’s agreement to all the terms, conditions and restrictions contained in the Plan and this Agreement. If the Employee does not accept this award on his/her personal Merrill Lynch account within 60 days of the Date of Grant, the Employer may revoke this grant.

**BUILD-A-BEAR WORKSHOP, INC.**

By: *Maxine Clark*  
 Maxine Clark  
**Chief Executive Bear**

**Terms and Conditions**

**A. TERMS AND CONDITIONS APPLICABLE TO RESTRICTED STOCK**

1. Terms of Restricted Stock Award. Pursuant to action of the Committee, the Company awards to the Employee the number of shares of Restricted Stock set forth above. The Restricted Stock is nontransferable by the Employee during the period described below and is subject to the risk of forfeiture as described below. Prior to the time shares become transferable, the shares of Restricted Stock shall bear a legend indicating their nontransferability, and, subject to the terms of this Agreement, if the Employee terminates service as an Employee of the Company prior to the time a restriction lapses, the Employee shall forfeit any shares of Restricted Stock which are still subject to the restrictions at the time of termination of such service.

The restrictions on transfer described in this Section A.1 shall lapse and be of no further force and effect as follows, if the Employee is still an employee of the Company on the respective annual anniversary, and has been continuously serving as such an employee of the Company during such 12-month period ending on the annual anniversary:

<u>Date</u>	<u>Percent of Grant for which Restrictions Lapse on Indicated Date</u>
Grant Date	0
1 <sup>st</sup> Anniversary of Grant Date:	25%
2 <sup>nd</sup> Anniversary of Grant Date:	25%
3 <sup>rd</sup> Anniversary of Grant Date:	25%
4 <sup>th</sup> Anniversary of Grant Date:	25%



For avoidance of doubt, on the date ending forty-eight (48) months after the Grant Date, one hundred percent (100%) of the shares of Restricted Stock shall be transferable by the Employee if the Employee is still an Employee, and has been continuously serving during such forty-eight (48) month period as such an employee of the Company on such date.

Notwithstanding the foregoing, in the event of a Change of Control, all previously granted shares of Restricted Stock not yet free of the restrictions of this Section A.1 shall become immediately free of such restrictions.

2. Death of the Employee. In the event of the death of the Employee, all previously granted shares of Restricted Stock not yet free of the restrictions of Section A.1 shall become immediately free of such restrictions.

3. Cost of Restricted Stock. The purchase price of the shares of Restricted Stock shall be \$0.00.

4. Rights as Stockholder. The Employee shall be entitled to all of the rights of a stockholder with respect to the shares of Restricted Stock including the right to vote such shares and to receive dividends and other distributions payable with respect to such shares since the Grant Date.

5. Escrow of Share Certificates. Certificates for the Restricted Stock shall be issued in the Employee's name and shall be held in escrow by the Company until all restrictions lapse or such shares are forfeited as provide herein. A certificate or certificates representing the Restricted Stock as to which restrictions have lapsed shall be delivered to the Employee upon such lapse.

6. Government Regulations. Notwithstanding anything contained herein to the contrary, the Company's obligation to issue or deliver certificates evidencing the Restricted Stock shall be subject to all applicable laws, rules and regulations and to such approvals by any governmental agencies or national securities exchanges as may be required.

7. Withholding Taxes. The Company shall have the right to require the Employee to remit to the Company, or to withhold from other amounts payable to the Employee, as compensation or otherwise, an amount sufficient to satisfy all federal, state and local withholding tax requirements.

**B. TERMS AND CONDITIONS APPLICABLE TO THE OPTION**

1. Grant and Terms of Option. Pursuant to action of the Committee, the Company grants to the Employee the Option to purchase the number of shares of Common Stock set forth above, for a period of ten (10) years from the Grant Date, at the exercise price set forth above; provided, however, that the right to exercise such Option shall be, and is hereby, restricted as follows:

(a)(i) No shares may be purchased prior to the first anniversary of the Grant Date;

(ii) At any time during the term of the Option granted hereby on or after first anniversary of the Grant Date, the Employee may purchase up to 25% of the total number of shares to which the Option granted hereby relates;

(iii) At any time during the term of the Option granted hereby on or after the second anniversary of the Grant Date, the Employee may purchase up to an additional 25% of the total number of shares to which the Option granted hereby relates;

(iv) At any time during the term of the Option granted hereby on or after the third anniversary of the Grant Date, the Employee may purchase up to an additional 25% of the total number of shares to which the Option granted hereby relates; and

(v) At any time on or after the fourth anniversary of the Grant Date, the Employee may purchase up to an additional 25% of the total number of shares to which the Option granted hereby relates;

so that on or after fifth anniversary of the Grant Date, during the term hereof, the Employee will have become entitled to purchase the entire number of shares to which the Option granted hereby relates.

(b) Notwithstanding the foregoing, in the event of a Change of Control, the Employee may purchase 100% of the total number of shares to which the Option granted hereby relates.

(c) In no event may the Option granted hereby or any part thereof be exercised after the expiration of ten (10) years from the Date of Grant.

(d) The purchase price of the shares subject to the Option may be paid for (i) in cash, (ii) in the discretion of the Committee, by tender of shares of Common Stock already owned by the Employee, or (iii) in the discretion of the Committee, by a combination of methods of payment specified in clauses (i) and (ii), all in accordance with the provisions of the Plan. Notwithstanding the preceding sentence, the Employee may request that the Committee agree that payment in full of the option price need not accompany the written notice of exercise; provided that, the notice of exercise directs that the certificate or certificates for the shares of Common Stock for which the Option is exercised be delivered to a licensed broker acceptable to the Committee as the agent for the Employee and, at the time such certificate or certificates are delivered, the broker tenders to the Committee cash (or cash equivalents acceptable to the Committee) equal to the option price for the shares of Common Stock purchased pursuant to the exercise of the Option plus the amount (if any) of any withholding obligations on the part of the Company. Such request may be granted or denied in the sole discretion of the Committee.

(e) No shares of Common Stock may be tendered in exercise of the Option granted hereby if such shares were acquired by the Employee through the exercise of an Incentive Stock Option (within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended), unless (i) such shares have been held by the Employee for at least one year, and (ii) at least two years have elapsed since such Incentive Stock Option was granted.

2. Termination of Employment. In the event of the termination of employment of the Employee for any reason other than for cause, as shall be determined in the sole discretion of the Committee, the Option granted, to the extent it was eligible for exercise at the date of such termination of employment: (i) shall be exercisable for up to thirty (30) days after the date of such termination; and (ii) may, subject to the Committee's sole discretion and consent, be exercised at any time within three (3) months after such termination, or for such longer period as the Committee may permit, but not after ten (10) years from the Date of Grant.

3. Death of the Employee. In the event of the death of the Employee during the term of this Agreement and while he or she is employed by the Company (or a subsidiary) or within three (3) months after the termination of his or her employment other than for cause, the Option granted hereby shall become fully vested (if not already fully vested) and may be exercised by a legatee or legatees of the Employee under his or her last will, or by his or her personal representatives or distributees, at any time within a period of one (1) year after his or her death, but not after ten (10) years from the Date of Grant.

4. Shares Issued on Exercise of Option. It is the intention of the Company that on any exercise of the Option granted hereby it will transfer to the Employee shares of its authorized but unissued stock or transfer Treasury shares, or utilize any combination of Treasury shares and authorized but unissued shares, to satisfy its obligations to deliver shares on any exercise hereof.

5. Option Not an Incentive Stock Option. It is intended that the Option granted hereby shall not be treated as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended.

**C. TERMS AND CONDITIONS APPLICABLE TO ALL AWARDS**

1. Adjustments Upon Changes in Capitalization or Corporate Acquisitions. Notwithstanding any other provision in the Agreement, if there is any change in the Common Stock by reason of stock dividends, spin-offs, split ups, recapitalizations, mergers, consolidations, reorganizations, combinations or exchanges of shares, the number of shares of Common Stock under this award of Restricted Stock not yet vested, and the price thereof, as applicable, shall be appropriately adjusted by the Committee.

2. No Right to Continued Service. Nothing in this Agreement shall be deemed to create any limitation or restriction on such rights as the Company otherwise would have to terminate the service of the Employee.

3. Committee Administration. This award has been made pursuant to a determination made by the Committee, and the Committee or any successor or substitute committee authorized by the Board of Directors or the Board of Directors itself, subject to the express terms of this Agreement, shall have plenary authority to interpret any provision of this Agreement and to make any determinations necessary or advisable for the administration of this Agreement and may waive or amend any provisions hereof in any manner not adversely affecting the rights granted to the Employee by the express terms hereof.

4. Grant Subject to Plan. This Restricted Stock and Option award is granted under and is expressly subject to all the terms and provisions of the Plan, and the terms of the Plan are incorporated herein by reference. The Employee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof. The Committee has been appointed by the Board of Directors and designated by it, as the Committee to make grants of restricted stock.

5. Governing Law. This Agreement shall be construed under the laws of the State of Delaware.

**EMPLOYMENT, CONFIDENTIALITY AND NONCOMPETE AGREEMENT**

This Employment, Confidentiality and Noncompete Agreement ("Agreement") is made and entered into effective as of the 16<sup>th</sup> day of March 2009, by and between Build-A-Bear Workshop, Inc., a Delaware corporation ("Company"), and John Haugh ("Employee").

WHEREAS, Company desires to employ and Employee desires to be employed as the President and Chief Marketing and Merchandising Bear of Company.

WHEREAS, Company has pioneered the retail concept of "make your own" stuff plush toys, including animals and dolls, and is engaged in, among other things, the business of production, marketing, promotion and distribution of plush stuff toys, clothing, accessories and similar items, including without limitation, the ownership, management, franchising, leasing and development of retail stores in which the basic operation is the selling of such items, and the promotion of the related concepts and characters through merchandising and mass media. The Company is headquartered and its principal place of business are located in, and this Agreement is being signed in, St. Louis, Missouri.

WHEREAS, Company conducts business in selected locations throughout the United States and internationally through franchise arrangements.

WHEREAS, Company has expended a great deal of time, money and effort to develop and maintain its proprietary Confidential Information (as defined herein) which is material to Company and which, if misused or disclosed, could be very harmful to Company's business.

WHEREAS, the success of Company depends to a substantial extent upon the protection of its Confidential Information and goodwill by all of its employees.

WHEREAS, Company compensates its employees to, among other things, develop and preserve goodwill with its customers, landlords, suppliers and partners on Company's behalf and business information for Company's ownership and use.

WHEREAS, if Employee were to leave Company, Company, in all fairness, would need certain protections in order to prevent competitors of Company from gaining an unfair competitive advantage over Company or diverting goodwill from Company, or to prevent Employee from misusing or misappropriating the Confidential Information.

NOW, THEREFORE, in consideration of the compensation and other benefits of Employee's employment by Company and the recitals, mutual covenants and agreements hereinafter set forth, Employee and Company agree as follows:

1. Employment Services.

(a) Employee is hereby employed by Company, and Employee hereby accepts such employment, upon the terms and conditions hereinafter set forth. Employee shall serve as President and Chief Marketing and Merchandising Bear during the Employment Period, on a full-time basis. Employee shall carry out such duties as are assigned to him by Company's Chief Executive Bear.

(b) Employee agrees that throughout Employee's employment with Company, Employee will (i) faithfully render such services as may be delegated to Employee by Company, (ii) devote substantially all of Employee's entire business time, good faith, best efforts, ability, skill and attention to Company's business, and (iii) follow and act in accordance with all of the rules, policies and procedures of Company, including but not limited to working hours, sales and promotion policies, and specific Company rules. Company further agrees that it shall not during the Initial Term of this Agreement require Employee to relocate his residence outside of the St. Louis metropolitan area.

(c) "Company" means Build-A-Bear Workshop, Inc. or one of its Subsidiaries, whichever is Employee's employer. The term "Subsidiary" means any corporation, joint venture or other business organization in which Build-A-Bear Workshop, Inc. now or hereafter, directly or indirectly, owns or controls more than fifty percent (50%) interest.

2. Term of Employment. The term of this Agreement shall commence on the date first set forth above, and shall end on the third anniversary hereof, unless sooner terminated as provided in Section 4 hereof (the "Initial Term"). Following the Initial Term, this Agreement shall renew for successive one-year periods (each a "Renewal Period"; collectively, the Initial Term and each Renewal Period, the "Employment Period"), unless either party notifies the other party of its decision not to renew the Agreement at least 30 days prior to the third anniversary date or the expiration of any Renewal Period, or unless the Agreement is sooner terminated as provided in Section 4 hereof. For the avoidance of doubt, if either party provides notice of non-renewal of the Agreement at least 30 days prior to the end of the Initial Term or the end of any Renewal Period, then the Agreement shall expire.

### 3. Compensation.

(a) Base Salary. During the Employment Period, Company shall pay Employee as compensation for his services an annual base salary of not less than Three Hundred Fifty Thousand Dollars (\$350,000), payable in accordance with Company's usual practices. Employee's annual base salary rate shall be reviewed by the Compensation Committee of the Board of Directors (the "Compensation Committee") at least annually for increase following each fiscal year so that Employee's salary will be commensurate for similarly situated executives with firms similarly situated to Company; *provided, however*, that if Employee's individualized performance targets (set for each fiscal year by Employee and Employee's team leader) are achieved, Employee's annual base salary rate shall not be subject to decrease at any time during the Employment Period and shall be subject to annual increase by no less than the average percentage increase given to all other Company executive employees for such fiscal year (the "Average Increase").

(b) Bonus. Should Company exceed the sales, profits and other objectives established by Compensation Committee for any fiscal year, Employee shall be eligible to receive a bonus for such fiscal year in the amount as determined by the Compensation Committee; provided however the potential bonus opportunity for Employee in any given fiscal year will be set by the Compensation Committee such that, if the Company exceeds its objectives, the Company will pay Employee not less than fifty percent (50%) of Employee's annual base pay for such fiscal year. Any bonus payable to Employee will be payable in cash, stock or stock options, or combination thereof, all as determined by the Board of Directors or any duly authorized committee thereof, and unless a different payout schedule is applicable for

all executive employees of the Company, any such bonus payment will be payable in a single, lump sum payment. In the event of termination of this Agreement because of Employee's death or disability (as defined by Section 4.1(b)), termination by the Company without Cause pursuant to Section 4.1(c), or pursuant to Employee's right to terminate this Agreement for Good Reason under Section 4.1(d), the bonus criteria shall not change and any bonus shall be pro-rated based on the number of full calendar weeks during the applicable fiscal year during which Employee was employed hereunder and shall be paid at the time and in the form such bonus would have been paid had Employee's employment continued. No bonus shall be payable hereunder for any other termination of employment by Executive prior to the last day of a fiscal year.

Such bonus, if any, shall be payable after Company's accountants have determined the sales and profits and have issued their audit report with respect thereto for the applicable fiscal year, which determination shall be binding on the parties. Any such bonus shall be paid within seventy-five (75) days after the end of each calendar year, regardless of Employee's employment status at the time payment is due. If timely payment is not made, the Company shall indemnify the Employee against any additional tax liability that the Employee may incur proximately as a result of the payment being made after the seventy-five day period.

(c) Stock Options. Employee may have been granted in the past, and/or may in the future be granted, a certain number of restricted shares and/or stock options to purchase shares of Company's common stock (the "Common Stock"), pursuant to the terms set forth more particularly in the stock option and/or restricted stock agreements ("Stock Agreement") used in connection with the Build-A-Bear Workshop, Inc. 2004 Stock Incentive Plan (or any successor plan) (the "Plan"). The Plan and applicable Stock Agreement(s) shall govern any grants of restricted shares and/or stock options to purchase shares of Company's Common Stock.

(d) Discounts. Employee and his immediate family will be entitled to a 20% discount for all merchandise purchased at Company's stores.

(e) Vacation. Employee shall be entitled to paid vacation and paid sick leave on the same basis as may from time to time apply to other Company executive employees generally. Vacations will be scheduled with the approval of Company's Chief Executive Bear, who may block out certain periods of time during which vacations may not be taken, including preceding Valentine's Day, preceding Easter, from November 1 through December 31, during Company inventory, and just prior to store openings. One-third of one year's vacation (or any part of it) may be carried over to the next year; provided that such carry over is used in the first calendar quarter of the next year. Unless approved by the Chief Executive Bear, all unused vacation shall be forfeited. No more than two weeks of vacation can be taken at one time. Employee shall also be entitled to one (1) additional day per calendar year of paid vacation to be taken in the month of his birthday.

(f) Other. Employee shall be eligible for such other perquisites as may from time to time be awarded to Employee by Company payable at such times and in such amounts as Company, in its sole discretion, may determine. All such compensation shall be subject to customary withholding taxes and other employment taxes as required with respect thereto. During the Employment Period, Employee shall also qualify for all rights and benefits for which Employee may be eligible under any benefit plans including group life, medical, health, dental and/or disability insurance or other benefits

(“Welfare Benefits”) which are provided for employees generally at his then current location of employment. Employee may, in his sole discretion, decline any perquisite, Welfare Benefit, proposed annual salary increase, or bonus payment.

#### 4. Termination Provisions.

4.1 Termination of Employment. Prior to the expiration of the Employment Period, this Agreement and Employee’s employment may be terminated as follows:

(a) Upon Employee’s death;

(b) By the Company upon thirty (30) day’s prior written notice to Employee in the event Employee, by reason of permanent physical or mental disability (which shall be determined by a physician selected by Company or its insurers and acceptable to Employee or Employee’s legal representative (such agreement as to acceptability not to be withheld unreasonably), shall be unable to perform the essential functions of his position, with or without reasonable accommodation, for six (6) consecutive months; provided, however, Employee shall not be terminated due to permanent physical or mental disability unless or until said disability also entitles Employee to benefits under such disability insurance policy as is provided to Employee by Company, provided however that continued entitlement to disability benefits coverage shall be not required where Employee fails to qualify for benefits coverage continuation due to an act or omission by Employee.

(c) By the Company with or without Cause. For the purposes of this Agreement, “Cause” shall mean: (i) Employee’s engagement in any conduct which, in Company’s reasonable determination, constitutes gross misconduct, or is illegal, unethical or improper provided such conduct brings detrimental notoriety or material harm to Company; (ii) gross negligence or willful misconduct; (iii) any act which results in a conviction for a felony involving moral turpitude, fraud or misrepresentation; (iv) a material breach of a material provision of this Agreement by Employee, or (v) failure of Employee to follow a written directive of the Chief Executive Bear or the Board of Directors within thirty (30) days after receiving such notice, provided that such directive is reasonable in scope or is otherwise within the Chief Executive Bear’s or the Board’s reasonable business judgment, and is reasonably within Employee’s control; provided Employee does not cure said conduct or breach (to the extent curable) within thirty (30) days after the Chief Executive Bear or the Board of Directors provides Employee with written notice of said conduct or breach. In the event of termination for Cause, the Employee will be afforded an opportunity prior to the actual date of termination to discuss the matter with the Company.

(d) By the Employee with or without Good Reason. For purposes of this Agreement, “Good Reason” shall mean (i) a material breach of a material provision of this Agreement by Company, provided Company does not cure said breach within thirty (30) days after Employee provides the Board of Directors with written notice of the breach or (ii) Company’s issuance of a notice of non-renewal of this Agreement under Section 2, which results in expiration of this Agreement and a failure of Company and Employee to enter into a new written employment agreement.

#### 4.2 Impact of Termination.

(a) Survival of Covenants. Upon termination of this Agreement, all rights and obligations of the parties hereunder shall cease, except termination of employment pursuant to Section 4 or otherwise shall not terminate or otherwise affect the rights and obligations of the parties pursuant to Sections 5 through 13 hereof.

(b) Severance. In the event during the Employment Period (i) the Company terminates Employee's employment other than for Cause pursuant to Section 4.1(c) or (ii) the Employee terminates his employment for Good Reason pursuant to Section 4.1(d), the Company shall continue his base salary for a period of twelve (12) months from termination, such payments to be reduced by the amount of any compensation from a subsequent employer during such period. Employee shall accept these payments in full discharge of all obligations of any kind which Company has to him except obligations, if any (i) for post-employment benefits expressly provided under this Agreement and/or at law, (ii) to repurchase any capital stock of Company owned by Employee (as may or may not be set forth in the applicable stock agreement); or (iii) for indemnification under separate agreement by virtue of Employee's status as a director/officer of the Company. Employee shall also be eligible to receive a bonus with respect to the year of termination as provided in Section 3(b).

Notwithstanding anything herein to the contrary, in the event that Employee is determined to be a specified employee within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of any payment on termination of employment hereunder, payment(s) shall be made or begin, as applicable, on the first payroll date which is more than six months following the date of separation from service, to the extent required to avoid any adverse tax consequences under Section 409A of the Code. Any payments that would have been made during such 6-month period shall be made in a lump sum on the first payroll date which is more than six months following the date Employee separates from service with Company.

(c) Termination due to Employee Non-Renewal of Term or Termination by Employee without Good Reason. If the Agreement expires either at the end of the Initial Term or at the end of any Renewal Period, due to the issuance of notice of non-renewal by Employee under Section 2, then no severance under Section 4(b) shall be paid to the Employee and his employment shall terminate upon the anniversary date. If Employee terminates his employment without Good Reason, then no severance under 4.2(b) shall be paid to Employee and his employment shall terminate on the effective date of such termination.

(d) Welfare Benefits. Upon termination or expiration of this Agreement for any reason, Employee shall be provided with such Welfare Benefits continuation notices, rights and obligations as may be required under federal or state law (including COBRA). During the period that Welfare Benefits are continued under COBRA, the Company shall continue to pay the Company's portion of the medical plan premium for the benefit of Employee.



## 5. Confidential Information.

(a) Employee agrees to keep secret and confidential, and not to use or disclose to any third parties, except as directly required for Employee to perform Employee's employment responsibilities for Company, any of Company's proprietary Confidential Information.

(b) Employee acknowledges and confirms that certain data and other information (whether in human or machine readable form) that comes into his possession or knowledge (whether before or after the date of this Agreement) and which was obtained from Company, or obtained by Employee for or on behalf of Company, and which is identified herein (the "Confidential Information") is the secret, confidential property of Company. This Confidential Information includes, but is not limited to:

(1) lists or other identification of customers or prospective customers of Company;

(2) lists or other identification of sources or prospective sources of Company's products or components thereof, its landlords and prospective landlords and its current and prospective alliance, marketing and media partners (and key individuals employed or engaged by such parties);

(3) all compilations of information, correspondence, designs, drawings, files, formulae, lists, machines, maps, methods, models, studies, surveys, scripts, screenplays, artwork, sketches, notes or other writings, plans, leases, records and reports;

(4) financial, sales and marketing data relating to Company or to the industry or other areas pertaining to Company's activities and contemplated activities (including, without limitation, leasing, manufacturing, transportation, distribution and sales costs and non-public pricing information);

(5) equipment, materials, designs, procedures, processes, and techniques used in, or related to, the development, manufacture, assembly, fabrication or other production and quality control of Company's products, stores and services;

(6) Company's relations with its past, current and prospective customers, suppliers, landlords, alliance, marketing and media partners and the nature and type of products or services rendered to, received from or developed with such parties or prospective parties;

(7) Company's relations with its employees (including, without limitation, salaries, job classifications and skill levels); and

(8) any other information designated by Company to be confidential, secret and/or proprietary (including without limitation, information provided by customers, suppliers and alliance partners of Company).

Notwithstanding the foregoing, the term Confidential Information shall not consist of any data or other information which has been made publicly available or otherwise placed in the public domain other than by Employee in violation of this Agreement.

(c) During the Employment Period, Employee will not copy, reproduce or otherwise duplicate, record, abstract, summarize or otherwise use, any papers, records, reports, studies, computer printouts, equipment, tools or other property owned by Company except as expressly permitted by Company in writing or required for the proper performance of his duties on behalf of Company.

6. Post-Termination Restrictions. Employee recognizes that (i) Company has spent substantial money, time and effort over the years in developing and solidifying its relationships with its customers, suppliers, landlords and alliance, marketing and media partners and in developing its Confidential Information; (ii) long-term customer, landlord, supplier and partner relationships often can be difficult to develop and require a significant investment of time, effort and expense; (iii) Company has paid its employees to, among other things, develop and preserve business information, customer, landlord, vendor and partner goodwill, customer, landlord, vendor and partner loyalty and customer, landlord, vendor and partner contacts for and on behalf of Company; and (iv) Company is hereby agreeing to employ and pay Employee based upon Employee's assurances and promises not to divert goodwill of customers, landlords, suppliers or partners of Company, either individually or on a combined basis, or to put himself in a position following Employee's employment with Company in which the confidentiality of Company's Confidential Information might somehow be compromised. Accordingly, Employee agrees that during the Employment Period and for the period of time set forth below following termination of employment, provided termination is in accordance with the terms of paragraph 4.1(b), (c), or (d), or due to expiration of the Agreement due to non-renewal by either party, Employee will not, directly or indirectly (whether as owner, partner, consultant, employee or otherwise):

(a) for one (1) year, engage in, assist or have an interest in, or enter the employment of or act as an agent, advisor or consultant for, any person or entity which is engaged in, or will be engaged in, the development, manufacture, supplying or sale of a product, process, service or development which is competitive with a product, process, service or development on which Employee worked or with respect to which Employee has or had access to Confidential Information while at Company ("Restricted Activity"), and which is located within the United States or within any country where the Company has established a retail presence either directly or through a franchise arrangement; or

(b) for one (1) year, induce or attempt to induce any employee, consultant, partner or advisor of Company to accept employment or an affiliation with any entity engaged in a Restricted Activity;

*provided, however*, that following termination of his employment, Employee shall be entitled to be an employee of an entity that engages in Restricted Activity so long as: (i) the sale of stuffed plush toys is not a material business of the entity; (ii) Employee has no direct or personal involvement in the sale of stuffed plush toys; and (iii) neither Employee, his relatives, nor any other entities with which he is affiliated own more than 1% of the entity. As used in this paragraph 6, "material business" shall mean that either (A) greater than 10% of annual revenues received by such entity were derived from the sale of stuffed plush toys and related products, or (B) the annual revenues received or projected to be received by such entity

from the sale of stuffed plush toys and related products exceeded \$10 million, or (C) or the entity otherwise annually derives or is projected to derive annual revenues in excess of \$5 million from a retail concept that is similar in any material regard to Company.

7. Acknowledgment Regarding Restrictions. Employee recognizes and agrees that the restraints contained in Section 6 (both separately and in total), including the geographic scope thereof in light of the Company's marketing efforts, are reasonable and enforceable in view of Company's legitimate interests in protecting its Confidential Information and customer goodwill and the limited scope of the restrictions in Section 6.

8. Inventions.

Any and all ideas, inventions, discoveries, patents, patent applications, continuation-in-part patent applications, divisional patent applications, technology, copyrights, derivative works, trademarks, service marks, improvements, trade secrets and the like (collectively, "Inventions"), which are developed, conceived, created, discovered, learned, produced and/or otherwise generated by Employee, whether individually or otherwise, during the time that Employee is employed by Company, whether or not during working hours, that relate to (i) current and anticipated businesses and/or activities of Company, (ii) the current and anticipated research or development of Company, or (iii) any work performed by Employee for Company, shall be the sole and exclusive property of Company, and Company shall own any and all right, title and interest to such Inventions. Employee assigns, and agrees to assign to Company whenever so requested by Company, any and all right, title and interest in and to any such Invention, at Company's expense, and Employee agrees to execute any and all applications, assignments or other instruments which Company deems desirable or necessary to protect such interests, at Company's expense.

(b) Employee acknowledges that as part of his work for the Company he may be asked to create, or contribute to the creation of, computer programs, documentation and other copyrightable works. Employee hereby agrees that any and all computer programs, documentation and other copyrightable materials that he has prepared or worked on for the Company, or is asked to prepare or work on by the Company, shall be treated as and shall be a "work made for hire," for the exclusive ownership and benefit of Company according to the copyright laws of the United States, including, but not limited to, Sections 101 and 201 of Title 17 of the U.S. Code ("U.S.C.") as well as according to similar foreign laws. Company shall have the exclusive right to register the copyrights in all such works in its name as the owner and author of such works and shall have the exclusive rights conveyed under 17 U.S.C. §§ 106 and 106A including, but not limited to, the right to make all uses of the works in which attribution or integrity rights may be implicated. Without in any way limiting the foregoing, to the extent the works are not treated as works made for hire under any applicable law, Employee hereby irrevocably assigns, transfers, and conveys to Company and its successors and assigns any and all worldwide right, title, and interest that Employee may now or in the future have in or to the works, including, but not limited to, all ownership, U.S. and foreign copyrights, all treaty, convention, statutory, and common law rights under the law of any U.S. or foreign jurisdiction, the right to sue for past, present, and future infringement, and moral, attribution, and integrity rights. Employee hereby expressly and forever irrevocably waives any and all rights that he may have arising under 17 U.S.C. §§ 106A, rights that may arise under any federal, state, or foreign law that conveys rights that are similar in nature to those conveyed under 17 U.S.C. §§ 106A, and any other type of moral right or droit moral.

9. **Company Property.** Employee acknowledges that any and all notes, records, sketches, computer diskettes, training materials and other documents relating to Company obtained by or provided to Employee, or otherwise made, produced or compiled during the Employment Period, regardless of the type of medium in which they are preserved, are the sole and exclusive property of Company and shall be surrendered to Company upon Employee's termination of employment and on demand at any time by Company.

10. **Nondisparagement.** Employee agrees that he will not in any way disparage Company or its affiliated entities, officers, or directors. Further, Employee agrees that he will neither make nor solicit any comments, statements, or the like to the media or to third parties that may be considered to be derogatory or detrimental to the good name or business reputation of Company or any of its affiliated entities, officers or directors.

11. **Non-Waiver of Rights.** Either party's failure to enforce at any time any of the provisions of this Agreement or to require at any time performance by the other party of any of the provisions hereof shall in no way be construed to be a waiver of such provisions or to affect either the validity of this Agreement, or any part hereof, or the right of the non-breaching party thereafter to enforce each and every provision in accordance with the terms of this Agreement.

12. **Company's Right to Injunctive Relief.** In the event of a breach or threatened breach of any of Employee's duties and obligations under the terms and provisions of Sections 5, 6, or 8 hereof, Company shall be entitled, in addition to any other legal or equitable remedies it may have in connection therewith (including any right to damages that it may suffer), to temporary, preliminary and permanent injunctive relief restraining such breach or threatened breach. Employee hereby expressly acknowledges that the harm which might result to Company's business as a result of any noncompliance by Employee with any of the provisions of Sections 5, 6 or 8 would be largely irreparable. Employee specifically agrees that if there is a question as to the enforceability of any of the provisions of Sections 5, 6 or 8 hereof, Employee will not engage in any conduct inconsistent with or contrary to such Sections until after the question has been resolved by a final judgment of a court of competent jurisdiction.

13. **Judicial Enforcement.** If any provision of this Agreement is adjudicated to be invalid or unenforceable under applicable law in any jurisdiction, the validity or enforceability of the remaining provisions thereof shall be unaffected as to such jurisdiction and such adjudication shall not affect the validity or enforceability of such provisions in any other jurisdiction. To the extent that any provision of this Agreement is adjudicated to be invalid or unenforceable because it is overbroad, that provision shall not be void but rather shall be limited only to the extent required by applicable law and enforced as so limited. The parties expressly acknowledge and agree that this Section is reasonable in view of the parties' respective interests.

14. **Employee Representations.** Employee represents that the execution and delivery of the Agreement and Employee's employment with Company do not violate any previous employment agreement or other contractual obligation of Employee. Employee further represents and agrees that he will not, during his employment with Company, improperly use or disclose any proprietary information or trade secrets of former employers and will not bring on to the premises of the Company any unpublished documents or any property belonging to his former employers unless consented to in writing by such employers.

15. Amendments. No modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing specifically referring hereto, and signed by the parties hereto. This Agreement supersedes all prior agreements and understandings between Employee and Company to the extent that any such agreements or understandings conflict with the terms of this Agreement.

16. Assignments. This Agreement shall be freely assignable by Company to and shall inure to the benefit of, and be binding upon, Company, its affiliates, successors and assigns and/or any other entity which shall succeed to the business presently being conducted by Company. Being a contract for personal services, neither this Agreement nor any rights hereunder shall be assigned by Employee.

17. Choice of Forum and Governing Law. In light of Company's substantial contacts with the State of Missouri, the parties' interests in ensuring that disputes regarding the interpretation, validity and enforceability of this Agreement are resolved on a uniform basis, and Company's execution of, and the making of, this Agreement in Missouri, the parties agree that: (i) any litigation involving any noncompliance with or breach of the Agreement, or regarding the interpretation, validity and/or enforceability of the Agreement, shall be filed and conducted in the state or federal courts in St. Louis City or County, Missouri; and (ii) the Agreement shall be interpreted in accordance with and governed by the laws of the State of Missouri, without regard for any conflict of law principles.

18. Notices. Except as otherwise provided for herein, any notices to be given by either party to the other shall be affected by personal delivery in writing or by mail, registered or certified, postage prepaid, with return receipt requested. Mailed notices shall be addressed as follows:

a. If to Company:

Maxine Clark  
Chief Executive Bear  
1954 Innerbelt Business Center  
St. Louis, MO 63114

b. If to Employee:

John Haugh

\_\_\_\_\_  
\_\_\_\_\_

19. Arbitration. Any controversy or claim arising out of, or relating to this Agreement, the breach thereof, or Employee's employment by Company, shall, at Company's sole option, be settled by binding arbitration in the County of St. Louis in accordance with the rules then in force of the American Arbitration Association, and judgment upon the award rendered may be entered and enforced in any court having jurisdiction thereof. The controversies or claims subject to arbitration at Company's option under this Agreement include, without limitation, those arising

under Title VII of the Civil Rights Act of 1964, 42 U.S.C. Section 1981, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, the Worker Adjustment and Retraining Notification Act, the Missouri Human Rights Act, local laws governing employment, and the statutory and/or common law of contract and tort. In the event Employee commences any action in court which Company has the right to submit to binding arbitration, Company shall have sixty (60) days from the date of service of a summons and complaint upon Company to direct in writing that all or any part of the dispute be arbitrated. Any remedy available in any court action shall also be available in arbitration.

20. Headings. Section headings are provided in this Agreement for convenience only and shall not be deemed to substantively alter the content of such sections.

**PLEASE NOTE: BY SIGNING THIS AGREEMENT, EMPLOYEE IS HEREBY CERTIFYING THAT EMPLOYEE (A) HAS RECEIVED A COPY OF THIS AGREEMENT FOR REVIEW AND STUDY BEFORE EXECUTING IT; (B) HAS READ THIS AGREEMENT CAREFULLY BEFORE SIGNING IT; (C) HAS HAD SUFFICIENT OPPORTUNITY BEFORE SIGNING THE AGREEMENT TO ASK ANY QUESTIONS EMPLOYEE HAS ABOUT THE AGREEMENT AND HAS RECEIVED SATISFACTORY ANSWERS TO ALL SUCH QUESTIONS; AND (D) UNDERSTANDS EMPLOYEE'S RIGHTS AND OBLIGATIONS UNDER THE AGREEMENT.**

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

**THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY COMPANY.**

/s/ John Haugh  
John Haugh

**BUILD-A-BEAR WORKSHOP, INC.**

By: /s/ Maxine Clark  
Name: Maxine Clark  
Title: Chief Executive Bear

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
AND RULE 13a-14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

I, Maxine Clark, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Build-A-Bear Workshop, Inc.;
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.

/s/ Maxine Clark

\_\_\_\_\_  
Maxine Clark  
Chairman of the Board and Chief Executive Bear  
Build-A-Bear Workshop, Inc.  
(Principal Executive Officer)

Date: May 14, 2009

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002  
AND RULE 13a-14(a) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

I, Tina Klocke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Build-A-Bear Workshop, Inc.;
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.

/s/ Tina Klocke

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Tina Klocke  
Chief Operations and Financial Bear, Treasurer and Secretary  
Build-A-Bear Workshop, Inc.  
(Principal Financial Officer)

Date: May 14, 2009



**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 Build-A-Bear Workshop, Inc. (the "Company") on Form 10-Q for the period ended April 4, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Maxine Clark, Chairman of the Board and Chief Executive Bear of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (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/ Maxine Clark

Maxine Clark

*Chairman of the Board and Chief Executive Bear*

*Build-A-Bear Workshop, Inc.*

Date: May 14, 2009

**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 Build-A-Bear Workshop, Inc. (the "Company") on Form 10-Q for the period ended April 4, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tina Klocke, Chief Operations and Financial Bear, Treasurer and Secretary of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (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/ Tina Klocke

Tina Klocke

*Chief Operations and Financial Bear, Treasurer and Secretary  
Build-A-Bear Workshop, Inc.*

Date: May 14, 2009