

BUILD A BEAR WORKSHOP INC  
Form 10-Q  
November 06, 2014

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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 September 27, 2014  
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 43-1883836  
(State or Other Jurisdiction of (IRS Employer**

**Incorporation or Organization) Identification No.)**

**1954 Innerbelt Business Center Drive  
63114  
St. Louis, Missouri  
(Address of Principal Executive Offices) (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 the definitions 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 November 3, 2014, there were 17,395,493 issued and outstanding shares of the registrant's common stock.

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

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**PART I-FINANCIAL INFORMATION****Item 1. Financial Statements****BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

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

	<b>September 27, 2014</b> (Unaudited)	<b>December 28, 2013</b>	<b>September 28, 2013</b> (Unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 40,451	\$ 44,665	\$ 13,802
Inventories	45,712	50,248	56,671
Receivables	10,144	14,542	10,515
Prepaid expenses and other current assets	12,188	11,547	14,602
Deferred tax assets	998	81	269
Total current assets	109,493	121,083	95,859
Property and equipment, net of accumulated depreciation of \$183,841; \$177,512 and \$179,915, respectively	61,031	70,163	69,562
Other intangible assets, net	365	518	571
Other assets, net	3,976	3,847	3,025
Total Assets	\$ 174,865	\$ 195,611	\$ 169,017
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 28,369	\$ 34,977	\$ 33,517
Accrued expenses	13,145	16,380	9,162
Gift cards and customer deposits	25,869	33,786	23,092
Deferred revenue	4,173	4,687	4,935
Deferred tax liability	856	900	-
Total current liabilities	72,412	90,730	70,706
Deferred franchise revenue	1,004	905	1,000
Deferred rent	13,716	19,357	19,050

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Other liabilities	1,367	229	492
Stockholders' equity:			
Preferred stock, par value \$0.01, Shares authorized: 15,000,000; No shares issued or outstanding at September 27, 2014, December 28, 2013 and September 28, 2013	-	-	-
Common stock, par value \$0.01, Shares authorized: 50,000,000; Issued and outstanding: 17,383,428; 17,386,920 and 17,364,772 shares, respectively	174	174	174
Additional paid-in capital	68,749	69,094	68,460
Accumulated other comprehensive loss	(7,524 )	(7,303 )	(7,843 )
Retained earnings	24,967	22,425	16,978
Total stockholders' equity	86,366	84,390	77,769
Total Liabilities and Stockholders' Equity	\$ 174,865	\$ 195,611	\$ 169,017

See accompanying notes to condensed consolidated financial statements.

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

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

	<b>Thirteen weeks ended</b>		<b>Thirty-nine weeks ended</b>	
	<b>September</b>	<b>September</b>	<b>September</b>	<b>September</b>
	<b>27,</b>	<b>28,</b>	<b>27,</b>	<b>28,</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues:				
Net retail sales	\$85,561	\$83,580	\$257,752	\$266,906
Franchise fees	558	781	1,716	2,399
Commercial revenue	542	451	1,384	1,674
Total revenues	86,661	84,812	260,852	270,979
Costs and expenses:				
Cost of merchandise sold	48,424	50,197	149,422	161,837
Selling, general and administrative	36,217	35,819	108,062	116,455
Interest expense (income), net	(38)	(60)	(36)	(166)
Total costs and expenses	84,603	85,956	257,448	278,126
Income (loss) before income taxes	2,058	(1,144)	3,404	(7,147)
Income tax expense	238	210	862	412
Net income (loss)	\$1,820	\$(1,354)	\$2,542	\$(7,559)
Foreign currency translation adjustment	(1,009)	1,106	(221)	(160)
Comprehensive income (loss)	\$811	\$(248)	\$2,321	\$(7,719)
Earnings (loss) per common share:				
Basic	\$0.10	\$(0.08)	\$0.15	\$(0.46)
Diluted	\$0.10	\$(0.08)	\$0.14	\$(0.46)
Shares used in computing common per share amounts:				
Basic	16,971,416	16,531,240	16,899,245	16,407,668
Diluted	17,132,206	16,531,240	17,108,910	16,407,668

See accompanying notes to condensed consolidated financial statements.



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

(Dollars in thousands)

	<b>Thirty-nine weeks ended</b>	
	<b>September 27, 2014</b>	<b>September 28, 2013</b>
Cash flows from operating activities:		
Net income (loss)	\$2,542	\$ (7,559 )
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	13,385	14,399
Stock-based compensation	1,619	2,308
Deferred taxes	(924 )	(26 )
Impairment of store assets	433	649
Trade credit utilization	460	354
Loss on disposal of property and equipment	64	499
Change in assets and liabilities:		
Inventories	4,397	(9,656 )
Receivables	4,355	(781 )
Prepaid expenses and other assets	180	(197 )
Accounts payable and accrued expenses	(8,162 )	(7,165 )
Lease related liabilities	(5,653 )	(1,870 )
Gift cards and customer deposits	(7,904 )	(7,705 )
Deferred revenue	(407 )	(41 )
Net cash provided by (used in) operating activities	4,385	(16,791 )
Cash flows from investing activities:		
Purchases of property and equipment	(5,604 )	(14,490 )
Purchases of other assets and other intangible assets	(77 )	(203 )
Purchases of short term investments	(899 )	-
Cash used in investing activities	(6,580 )	(14,693 )
Cash flows from financing activities:		
Proceeds from the exercise of employee stock options, net of withholding tax payments	1,253	655
Purchases of Company's common stock	(3,220 )	-
Net cash (used in) provided by financing activities	(1,967 )	655
Effect of exchange rates on cash	(52 )	(540 )
Net decrease in cash and cash equivalents	(4,214 )	(31,369 )
Cash and cash equivalents, beginning of period	44,665	45,171
Cash and cash equivalents, end of period	\$40,451	\$ 13,802



See accompanying notes to condensed consolidated financial statements.

## Notes to Condensed 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 (the 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 December 28, 2013 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 December 28, 2013, which were included in the Company's annual report on Form 10-K filed with the SEC on March 13, 2014.

In the first quarter of fiscal 2014, the Company adopted new accounting guidance with regard to the presentation and disclosure of unrecognized tax benefits, according to the provisions of Accounting Standards Update (ASU) 2013-11. The adoption of this guidance did not have a material impact on the financial statements.

### 2. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	<b>September 27, 2014</b>	<b>December 28, 2013</b>	<b>September 28, 2013</b>
Prepaid rent	\$ 4,044	\$ 4,608	\$ 8,347

Other	8,144	6,939	6,255
	\$ 12,188	\$ 11,547	\$ 14,602

### 3. Property and Equipment

In 2012, the Company initiated a turnaround plan that includes the closure of a number of stores. The Company considers a more likely than not assessment that an individual location will close as a triggering event to review the store asset group for recoverability. As a result of this review for the first and second quarters of fiscal 2014, it was determined that certain stores would not be able to recover the carrying value of store leasehold improvements through expected undiscounted cash flows over the shortened remaining life of the related assets. Accordingly, the carrying value of the assets was reduced to fair value, calculated as the estimated future cash flows for each asset group, and asset impairment charges of \$0.4 million were recorded in the thirty-nine weeks ended September 27, 2014, which are included in selling, general and administrative expenses as a component of income (loss) before income taxes in the Retail segment. The inputs used to determine the fair value of the assets are Level 3 inputs as defined by ASC section 820-10. Any remaining net book value is depreciated over the shortened expected life. The thirty-nine weeks ended September 28, 2013, included similar impairment charges of \$0.6 million. There were no such charges in the thirteen weeks ended September 27, 2014 or September 28, 2013.

#### 4. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	<b>September 27, 2014</b>	<b>December 28, 2013</b>	<b>September 28, 2013</b>
Accrued wages, bonuses and related expenses	\$ 6,511	\$ 9,745	\$ 6,422
Sales tax payable	3,149	5,979	2,212
Accrued rent and related expenses	3,294	429	328
Current income taxes payable	191	227	200
	<b>\$ 13,145</b>	<b>\$ 16,380</b>	<b>\$ 9,162</b>

#### 5. Stock-based Compensation

The following table is a summary of the balances and activity for restricted stock and stock options for the thirty-nine weeks ended September 27, 2014:

	<b>Restricted Stock</b>	<b>Options</b>
Outstanding, December 28, 2013	720,198	1,065,012
Granted	201,458	103,776
Vested	343,473	—
Exercised	—	322,427
Forfeited	116,763	6,750
Canceled or expired	—	80,862
Outstanding, September 27, 2014	461,420	758,749

For the thirteen and thirty-nine weeks ended September 27, 2014 selling, general and administrative expenses includes \$0.4 million and \$1.6 million, respectively, of stock-based compensation expense. For the thirteen and thirty-nine weeks ended September 28, 2013, selling, general and administrative expenses includes \$0.7 million and \$2.3 million, respectively, of stock-based compensation expense. As of September 27, 2014, there was \$3.8 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 1.5 years.

The total fair value of shares vested during the thirty-nine weeks ended September 27, 2014 and September 28, 2013 was \$3.6 million and \$2.2 million, respectively.

## **6. Income Taxes**

In prior years, the Company recorded a valuation allowance on substantially all of its deferred tax assets. The effective tax rate was 11.6% and 25.3% for the thirteen and thirty-nine weeks ended September 27, 2014, respectively compared to (18.4)% and (5.8)% for the thirteen and thirty-nine weeks ended September 28, 2013, respectively. The income tax expense recorded in the thirteen weeks ended September 27, 2014 represents state and withholding taxes, return-to-provision adjustments, adjustments to uncertain tax position reserves, and tax expense recorded in foreign jurisdictions. The income tax expense recorded in the thirty-nine weeks ended September 27, 2014 represents state and withholding taxes, return-to-provision adjustments and adjustments to uncertain tax position reserves, partially offset by tax benefits recorded in foreign jurisdictions.

**7. Net Income (Loss) per Share**

The Company uses the two-class method to compute basic and diluted net income or loss per common share. In periods of net loss, no effect is given to the Company's participating securities as they do not contractually participate in the losses of the Company. The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except share and per share data):

	<b>Thirteen weeks ended</b>		<b>Thirty-nine weeks ended</b>	
	<b>September</b>	<b>September</b>	<b>September</b>	<b>September</b>
	<b>27,</b>	<b>28,</b>	<b>27,</b>	<b>28,</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>NUMERATOR:</b>				
Net income (loss) before allocation of earnings to participating securities	\$1,820	\$(1,354 )	\$2,542	\$(7,559 )
Less: Earnings allocated to participating securities	49	-	82	-
Net income (loss) after allocation of earnings to participating securities	\$1,771	\$(1,354 )	\$2,460	\$(7,559 )
<b>DENOMINATOR:</b>				
Weighted average number of common shares outstanding - basic	16,971,416	16,531,240	16,899,245	16,407,668
Dilutive effect of share-based awards	160,790	-	209,665	-
Weighted average number of common shares outstanding - dilutive	17,132,206	16,531,240	17,108,910	16,407,668
Basic income (loss) per common share attributable to Build-A-Bear Workshop, Inc. stockholders	\$0.10	\$(0.08 )	\$0.15	\$(0.46 )
Diluted income (loss) per common share attributable to Build-A-Bear Workshop, Inc. stockholders	\$0.10	\$(0.08 )	\$0.14	\$(0.46 )

For the thirteen and thirty-nine weeks ended September 27, 2014, options to purchase 136,168 shares of common stock were excluded from the denominator for diluted loss per common share because of their anti-dilutive effect. For the thirteen and thirty-nine weeks ended September 28, 2013, options to purchase 1,152,800 shares of common stock were excluded from the denominator for diluted loss per common share because of their anti-dilutive effect.

Due to the net loss for thirteen and thirty-nine weeks ended September 28, 2013, the denominator for diluted loss per common share is the same as the denominator for basic loss per common share for those periods because the inclusion of stock options and unvested restricted shares would be anti-dilutive.

## **8. Comprehensive Income (Loss)**

The difference between comprehensive income or loss and net income or loss results from foreign currency translation adjustments on the balance sheets of subsidiaries whose functional currency is not the US Dollar. The accumulated other comprehensive loss balance at September 27, 2014, December 28, 2013 and September 28, 2013 is comprised entirely of foreign currency translation. For the thirteen and thirty-nine weeks ended September 27, 2014 and September 28, 2013, there were no reclassifications out of accumulated other comprehensive loss.

## **9. Segment Information**

The Company's operations are conducted through three operating segments consisting of retail, international franchising and commercial. The retail segment includes the operating activities of company-owned stores in the United States, Canada, the United Kingdom and Ireland and other retail delivery operations, including the Company's store-commerce sites, pop-up stores and non-traditional store locations such as a baseball park. The international franchising segment includes the licensing activities of the Company's franchise agreements with store locations in Europe, outside of the United Kingdom and Ireland, Asia, Australia, the Middle East, Africa and Mexico. The commercial segment includes the Company's transactions with other businesses, mainly comprised of licensing the Company's intellectual properties for third party use and wholesale activities. 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):

	<b>Retail</b>	<b>International Franchising</b>	<b>Commercial</b>	<b>Total</b>
Thirteen weeks ended September 27, 2014				
Net sales to external customers	\$85,561	\$ 558	\$ 542	\$86,661
Income before income taxes	1,584	216	258	2,058
Capital expenditures, net	2,494	17	-	2,511
Depreciation and amortization	4,386	36	-	4,422
Thirteen weeks ended September 28, 2013				
Net sales to external customers	\$83,580	\$ 781	\$ 451	\$84,812
Income (loss) before income taxes	(1,817 )	396	277	(1,144 )
Capital expenditures, net	5,657	20	-	5,677
Depreciation and amortization	4,677	45	-	4,722
Thirty-nine weeks ended September 27, 2014				
Net sales to external customers	\$257,752	\$ 1,716	\$ 1,384	\$260,852
Income (loss) before income taxes	2,782	(62 )	684	3,404
Capital expenditures, net	5,655	26	-	5,681
Depreciation and amortization	13,274	111	-	13,385
Thirty-nine weeks ended September 28, 2013				
Net sales to external customers	\$266,906	\$ 2,399	\$ 1,674	\$270,979
Income (loss) before income taxes	(8,695 )	646	902	(7,147 )
Capital expenditures, net	14,600	93	-	14,693
Depreciation and amortization	14,263	136	-	14,399
Total Assets as of:				
September 27, 2014	\$166,403	\$ 2,849	\$ 5,613	\$174,865
September 28, 2013	\$159,529	\$ 3,118	\$ 6,370	\$169,017

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 customers and long-lived assets by geographic area (in thousands):

	<b>North America (1)</b>	<b>Europe (2)</b>	<b>Other (3)</b>	<b>Total</b>
Thirteen weeks ended September 27, 2014				
Net sales to external customers	\$68,067	\$18,247	\$347	\$86,661
Property and equipment, net	54,284	6,747	-	61,031
Thirteen weeks ended September 28, 2013				
Net sales to external customers	\$66,870	\$17,484	\$458	\$84,812
Property and equipment, net	61,341	8,221	-	69,562



Thirty-nine weeks ended September 27, 2014				
Net sales to external customers	\$209,400	\$50,422	\$1,030	260,852
Property and equipment, net	54,284	6,747	-	61,031
Thirty-nine weeks ended September 28, 2013				
Net sales to external customers	\$219,776	\$49,820	\$1,383	\$270,979
Property and equipment, net	61,341	8,221	-	69,562

For purposes of this table only:

- (1) North America includes the United States, Canada, Puerto Rico and franchise business in Mexico
- (2) Europe includes the United Kingdom, Ireland and franchise businesses in Europe
- (3) Other includes franchise businesses outside of North America and Europe

## 10. Contingencies

In the normal course of business, the Company is subject to regular examination by various taxing authorities for years not closed by the statute of limitations, including an ongoing customs audit in the United Kingdom in which the Company is contesting audit findings. The Company accrues a liability for this type of contingency when it believes that it is both probable that a liability has been incurred and that it can reasonably estimate the amount of the loss. In 2012, the Company received notification from the customs authority that it intended to make an assessment for unpaid duty, penalties and interest. The assessment was made in 2013. The Company has appealed this determination and continues to believe that the ultimate outcome of these matters will not have a material adverse impact on the results of operations, liquidity or financial position of the Company. However, if one or more of these examinations has an unfavorable resolution, it is possible that the results of operation, liquidity or financial position of the Company could be materially affected in any particular period. Since the date of the notification in the third quarter of fiscal 2012, the Company has been required to pay the disputed duty, pending resolution of the appeal. As of September 27, 2014, \$3.2 million had been paid in respect of the disputed duty and is included in receivables in the Retail segment.

## 11. Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The ASU will be effective for the Company beginning January 1, 2017, and allows for both retrospective and modified retrospective methods of adoption. The Company is in the process of determining the method of adoption and assessing the impact of this ASU on its consolidated financial statements.

## 12. Subsequent Event

In the period from September 27, 2014 through November 3, 2014, the Company repurchased approximately 12,000 shares of its common stock for an aggregate amount of \$145,000, leaving \$3.8 million of availability under the Board approved share repurchase program.

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

### Cautionary Notice Regarding Forward-Looking Statements

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties, and we undertake no obligation to update these statements except as required by federal securities laws. 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 the Company's annual report on Form 10-K for the year ended December 28, 2013, as filed with the SEC, and the following:

- general global economic conditions may deteriorate, which could lead to disproportionately reduced consumer demand for the Company's products, which represent relatively discretionary spending;
- customer traffic may decrease in the shopping malls where the Company's stores are located, and which it depends on to attract guests to its stores;
- the Company may be unable to generate interest in and demand for its interactive retail experience, or to identify and respond to consumer preferences in a timely fashion;
- the Company's marketing and on-line initiatives may not be effective in generating sufficient levels of brand awareness and guest traffic;
- the Company may be unable to generate comparable store sales growth;
- the Company is subject to a number of risks related to disruptions, failures or security breaches of its information technology infrastructure and we may improperly obtain, or fail to protect, its data or violate privacy or security laws or expectations;
- the Company may be unable to effectively operate or manage the overall portfolio of its company-owned stores;
- the Company may be unable to renew or replace its store leases, or enter into leases for new stores on favorable terms or in favorable locations, or may violate the terms of its current leases;
- the Company may not be able to operate its company-owned stores in the United Kingdom and Ireland profitably;
- the availability and costs of the Company's products could be adversely affected by risks associated with international manufacturing and trade, including foreign currency fluctuation;
- the Company's products could become subject to recalls or product liability claims that could adversely impact its financial performance and harm its reputation among consumers;
- the Company may lose key personnel, be unable to hire qualified additional personnel, or experience turnover of its management team;
- the Company is susceptible to disruption in its inventory flow due to its reliance on a few vendors;
- the Company may be unable to effectively manage its international franchises or laws relating to those franchises may change;
- the Company may fail to renew, register or otherwise protect its trademarks or other intellectual property or may be sued by third parties for infringement or misappropriation of their proprietary rights;
- the Company is subject to risks associated with technology and digital operations;
- the Company may suffer negative publicity or be sued due to violations of labor laws or unethical practices by manufacturers of its merchandise;

the Company may be unable to operate its company-owned distribution center efficiently or its third-party distribution center providers may perform poorly;

high petroleum products prices could increase the Company's inventory transportation costs and adversely affect its profitability;

the Company's market share could be adversely affected by a significant, or increased, number of competitors;

the Company may suffer negative publicity or negative sales if the non-proprietary toy products it sells in its stores do not meet its quality or sales expectations;

poor global economic conditions could have a material adverse effect on the Company's liquidity and capital resources;

fluctuations in the Company's quarterly results of operations could cause the price of its common stock to substantially decline; and

the Company may be unable to repurchase shares of its common stock at the times or in the amounts it currently anticipates, or the results of the share repurchase program may not be as beneficial as it currently anticipates.

## Overview

We are the only global company that offers an interactive "make your own stuffed animal" retail 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. As of September 27, 2014, we operated 241 traditional stores and 13 non-traditional stores in the United States, Canada and Puerto Rico (collectively, North America), 57 traditional stores and two non-traditional stores in the United Kingdom and Ireland (collectively, Europe) and had 70 franchised stores operating internationally under the Build-A-Bear Workshop brand.

We operate in three segments that share the same infrastructure, including management, systems, merchandising and marketing, and generate revenues as follows:

- Retail - Company-owned retail stores located in the United States, Canada, Puerto Rico, the United Kingdom and Ireland, and e-commerce sites;

- International Franchising – Other international stores operated under franchise agreements; and

- Commercial - Transactions with other business partners, mainly comprised of wholesale product sales and licensing our intellectual property, including entertainment properties, for third-party use.

Our 2013 performance demonstrated progress toward our objective to achieve sustainable, profitable growth as we hired a new chief executive, executed a significant real estate strategy and implemented stringent cost controls throughout the organization. Our 2014 plan built on the progress we made in 2013 in implementing our key strategies. Through the first three quarters of 2014, we have continued to improve store productivity and profitability through our real estate optimization efforts, repositioning our marketing programs to refine the consumer value equation and building on core competencies to lay the groundwork to further leverage the strength of our Build-A-Bear brand. Additionally, we have worked aggressively on expense rationalization as we continue to align our cost structure with our smaller store base and enhance product margins by value engineering our product designs, along with an end to end review of our supply chain.

Selected financial data attributable to each segment for the thirteen and thirty-nine weeks ended September 27, 2014 and September 28, 2013 are set forth in the notes to our condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

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 store-commerce sites and seasonal and event-based locations. Stores are considered comparable beginning in their thirteenth full month of operation. Stores with relocations or remodels that result in a significant change in square footage are excluded from the comparable stores sales calculation until the thirteenth full month of operation after the change. The percentage change in comparable store sales for the periods presented below is as follows:

<b>Thirteen weeks ended</b>		<b>Thirty-nine weeks ended</b>	
<b>September</b>		<b>September</b>	
<b>27,</b>	<b>28,</b>	<b>27,</b>	<b>28,</b>
<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>

North America	<b>1.0 %</b>	7.6	%	<b>(1.6) %</b>	9.1	%
Europe	<b>0.0 %</b>	2.3	%	<b>(3.6) %</b>	4.6	%
Consolidated	<b>0.8 %</b>	6.4	%	<b>(2.0) %</b>	8.2	%

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

We believe that the thirteen week period was positively impacted by high-impact product launches supported by well-executed, elevated marketing programs which led to robust sales of key licensed products, continued strength in our core collections and a successful early launch of our proprietary Halloween program;

We believe that comparable store sales were positively impacted in both the thirteen and thirty-nine week periods by strategic store closures, primarily in North American multi-store markets, which have transferred approximately 16% of their sales to remaining stores in the market;

We improved key operational levers by driving increases in dollars per transaction, units per transaction and average unit selling price in both the thirteen and thirty-nine week periods;

We believe the thirty-nine week period was negatively impacted by a decrease in traffic partially attributable to the extreme weather patterns in the first quarter of 2014 in North America and its lingering effects. In the first quarter of 2014, extreme weather decreased overall mall traffic for many markets in North America impacting the retail sector overall. In the second quarter of 2014, we saw the lingering effect of the first quarter weather patterns as school vacations were cancelled and the school year was extended in many markets impacting experiential children's retail such as ours whose traffic benefits when kids are out of school; and

We also believe that traffic was negatively impacted in the second quarter of 2014 as a result of our strategic decision to eliminate a gift-with-purchase promotion, along with its supporting marketing, that had run for several years in the second quarter but had failed to deliver a profitable return.

We are working to continue to improve comparable store sales through the following key initiatives:

Refining product planning to align with consumer demand driven by consistent execution of high-impact licensed and proprietary product launches supported by elevated marketing programs that focus on repositioning the consumer value equation and elevating the Build-A-Bear brand;

Continuing to reset the consumer value equation by shifting marketing focus to brand-building versus discounting. The Company has demonstrated that well-executed marketing programs can positively impact consumer awareness and demand for high-impact product launches; and

Continuing to drive increases in key operational metrics including average transaction value, units per transaction, average unit selling price and consumer conversion.

## Stores

### *Company-owned:*

The table below sets forth the number of Build-A-Bear Workshop company-owned stores in North America and Europe for the periods presented:

		<b>2014</b>				<b>Fifty-three Weeks - Projected</b>	
		<b>Thirty-nine Weeks</b>				<b>December</b>	
		<b>December</b>		<b>September 27,</b>		<b>January</b>	
		<b>28,</b>		<b>28,</b>		<b>3,</b>	
		<b>2013 Opened Closed</b>		<b>2014</b>		<b>2013 Opened Closed 2015</b>	
North America							

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Traditional	252	2	(13 )	241	252	5	(13 )	244
Non-traditional	11	3	(1 )	13	11	11	(1 )	21
	263	5	(14 )	254	263	16	(14 )	265
Europe								
Traditional	58	-	(1 )	57	58	-	(1 )	57
Non-traditional	2	-	-	2	2	-	-	2
	60	-	(1 )	59	60	-	(1 )	59
Total	323	5	(15 )	313	323	16	(15 )	324

**2013**

**Thirty-nine Weeks**

**December**

**29,**

**2012 Opened Closed**

**September 28,**

**2013**

**Fifty-two Weeks**

**December**

**29,**

**2012 Opened Closed**

**December**

**28,**

**2013**

North America

Traditional	283	3	(32 )	254	283	3	(34 )	252
Non-traditional	8	-	(2 )	6	8	5	(2 )	11
	291	3	(34 )	260	291	8	(36 )	263

Europe

Traditional	58	-	-	58	58	1	(1 )	58
Non-traditional	2	-	-	2	2	-	-	2
	60	-	-	60	60	1	(1 )	60
Total	351	3	(34 )	320	351	9	(37 )	323

We currently intend to close approximately 15 locations in fiscal 2014, primarily in North America. We also expect to opportunistically open new traditional stores and expand non-traditional locations, including shop-in-shops and seasonal pop-up locations.



***International Franchise Locations:***

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

	<b>Thirty-nine weeks ended September</b>	
	<b>27, 2014</b>	<b>28, 2013</b>
Beginning of period	<b>86</b>	91
Opened	<b>3</b>	7
Closed	<b>(19)</b>	(13)
End of period	<b>70</b>	85

As of September 27, 2014, we had master franchise agreements, which typically grant franchise rights for a particular country or group of countries. With the Turkish franchise added in the 2014 first quarter and the expansion to Austria and Switzerland with the new German franchise agreement in the third quarter, we now have agreements covering an aggregate of 19 countries. The closures in 2014 are primarily the result of our franchisees implementing real estate optimization plans, similar to what we have undertaken in North America. In the ordinary course of business, we anticipate signing additional master franchise agreements in the future and terminating other such agreements. In the long term, we believe there is a market potential for approximately 300 franchised stores outside of the United States, Canada, Puerto Rico, the United Kingdom and Ireland, which we expect to be operated primarily by new and existing franchisees.

**Results of Operations**

The following table sets forth, for the periods indicated, selected statement of operations data expressed as a percentage of total revenues, except where otherwise indicated:

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

**(Unaudited)**

	<b>Thirteen weeks ended September 27, 2014</b>		<b>Thirteen weeks ended September 28, 2013</b>		<b>Thirty-nine weeks ended September 27, 2014</b>		<b>Thirty-nine weeks ended September 28, 2013</b>	
Revenues:								
Net retail sales	98.7	%	98.5	%	98.8	%	98.5	%
Franchise fees	0.6		0.9		0.7		0.9	
Commercial revenue	0.6		0.5		0.5		0.6	
Total revenues	100.0		100.0		100.0		100.0	
Costs and expenses:								
Cost of merchandise sold <sup>(1)</sup>	56.2		59.7		57.7		60.3	
Selling, general and administrative	41.8		42.2		41.4		43.0	
Interest expense (income), net	(0.0	)	(0.0	)	(0.0	)	(0.1	)
Total costs and expenses	97.6		101.3		98.7		102.6	
Income (loss) before income taxes	2.4		(1.3	)	1.3		(2.6	)
Income tax expense	0.3		0.2		0.3		0.2	
Net income (loss)	2.1		(1.6	)	1.0		(2.8	)
Retail Gross Margin % <sup>(2)</sup>	43.7	%	40.1	%	42.3	%	39.6	%

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

Retail gross margin represents net retail sales less cost of retail merchandise sold, which excludes cost of wholesale merchandise sold. Retail gross margin was \$37.4 million and \$109.0 million for the thirteen and thirty-nine weeks ended September 27, 2014, respectively and \$33.5 million and \$105.8 million for the thirteen and thirty-nine weeks ended September 28, 2013, respectively. Retail gross margin percentage represents retail gross margin divided by net retail sales.

***Thirteen weeks ended September 27, 2014 compared to thirteen weeks ended September 28, 2013******Revenues***

*Net retail sales.* Net retail sales increased to \$85.6 million for the thirteen weeks ended September 27, 2014 from \$83.6 million for the thirteen weeks ended September 28, 2013, an increase of \$2.0 million, or 2.4%. The components of this increase are as follows:

	<b>Thirteen weeks ended September 27, 2014 (dollars in millions)</b>
Impact of store closures	<b>\$ (2.9 )</b>
Increase from new stores	<b>1.2</b>
Increase in non-comparable stores, primarily remodels and relocations	<b>1.1</b>
Impact of foreign currency translation	<b>1.1</b>
Increase from non-traditional locations, including e-commerce sales	<b>0.9</b>
Increase in comparable store sales	<b>0.6</b>
	<b>\$ 2.0</b>

We believe the changes in comparable store sales for the thirteen weeks ended September 27, 2014 are primarily attributable to the following factors:

We believe that the third quarter was positively impacted by high-impact product launches supported by well-executed, elevated marketing programs which led to robust sales of key licensed products, continued strength in our core collections and a successful early launch of our proprietary Halloween program;

We believe that comparable store sales were positively impacted in the third quarter by strategic store closures, primarily in North American multi-store markets, which have transferred approximately 16% of their sales to remaining stores in the market; and

In the third quarter, we improved key operational levers by driving increases in dollars per transaction, units per transaction and average unit selling price.

*Franchise fees and commercial revenue.* Revenue from franchise fees was \$0.6 million for the thirteen weeks ended September 27, 2014 compared to \$0.8 million for the thirteen weeks ended September 28, 2013 a decrease of \$0.2 million, primarily attributable to a decline in the number of franchise stores in operation during the quarter. Commercial revenue was \$0.5 million for both the thirteen weeks ended September 27, 2014 and September 28, 2013.

### *Costs and expenses*

*Gross margin.* Total gross margin increased to \$37.7 million for the thirteen weeks ended September 27, 2014 from \$33.8 million for the thirteen weeks ended September 28, 2013, an increase of \$3.8 million, or 11.4%. Retail gross margin increased to \$37.4 million for the thirteen weeks ended September 27, 2014 from \$33.5 million for the thirteen weeks ended September 28, 2013, an increase of \$3.9 million, or 11.5%. As a percentage of net retail sales, retail gross margin was 43.7% for the thirteen weeks ended September 27, 2014 compared to 40.1% for the thirteen weeks ended September 28, 2013. This 360 basis points as a percentage of net retail sales (bps) increase was primarily driven by a 290 bps improvement in merchandise margin driven by a combination of selected price increases and reduced product costs and 70 bps of improvement from reduced packaging costs and improved leverage of fixed occupancy costs.

*Selling, general and administrative.* Selling, general and administrative expenses were \$36.2 million for the thirteen weeks ended September 27, 2014 as compared to \$35.8 million for the thirteen weeks ended September 28, 2013, an increase of \$0.4 million, or 1.1%. As a percentage of total revenues, selling, general and administrative expenses decreased to 41.8% for the thirteen weeks ended September 27, 2014 as compared to 42.2% for the thirteen weeks ended September 28, 2013, a decrease of 40 bps. The 2014 third quarter included \$0.7 million in management transition costs and \$0.1 million in store closing costs. The 2013 third quarter included \$0.4 million in management transition costs and \$0.2 million in store closing costs. Excluding these costs, selling, general and administrative expenses as a percent of revenue decreased 70 bps, primarily due to timing of marketing expenses and other operational cost savings resulting from store closures that were partially offset by increased costs for outside services.

*Interest expense (income), net.* Interest income, net of interest expense, was \$40,000 for the thirteen weeks ended September 27, 2014 as compared to \$60,000 for the thirteen weeks ended September 28, 2013.

*Provision for income taxes.* The income tax expense was \$0.2 million for both the thirteen weeks ended September 27, 2014 and September 28, 2013. The effective tax rate was 11.6% for the thirteen weeks ended September 27, 2014 compared to (18.4)% for the thirteen weeks ended September 28, 2013. The change in the effective rate is primarily attributable to state and withholding taxes, return-to-provision adjustments, adjustments to uncertain tax position reserves, and tax expense recorded in foreign jurisdictions.

***Thirty-nine weeks ended September 27, 2014 compared to thirty-nine weeks ended September 28, 2013***

***Revenues***

*Net retail sales.* Net retail sales were \$257.8 million for the thirty-nine weeks ended September 27, 2014 compared to \$266.9 million for the thirty-nine weeks ended September 28, 2013, a decrease of \$9.2 million, or 3.4%. The components of this decrease are as follows:

	<b>Thirty-nine weeks ended September 27, 2014 (dollars in millions)</b>
Impact of store closures	<b>\$ (12.9 )</b>

Decrease in comparable store sales	<b>(4.8</b>	)
Increase from new stores	<b>3.8</b>	
Impact of foreign currency translation	<b>3.0</b>	
Increase from non-traditional locations, including e-commerce sales	<b>2.0</b>	
Increase in non-comparable stores, primarily remodels and relocations	<b>(0.3</b>	)
	<b>\$ (9.2</b>	)

We believe the changes in comparable store sales for the thirty-nine weeks ended September 27, 2014 are primarily attributable to the following factors:

We believe that the thirty-nine week period was positively impacted by high-impact product launches supported by well-executed, elevated marketing programs which lead to robust sales of key licensed products and continued strength in our core collections;

We believe that fiscal 2014 comparable store sales were positively impacted by strategic store closures, primarily in North American multi-store markets, which have transferred approximately 16% of their sales to remaining stores in the market;

We improved key operational levers by driving increases in dollars per transaction, units per transaction and average unit selling price in 2014;

We believe the thirty-nine week period was negatively impacted by a decrease in traffic partially attributable to the extreme weather patterns in the first quarter of 2014 in North America and its lingering effects. In the first quarter of 2014, extreme weather decreased overall mall traffic for many markets in North America impacting the retail sector overall. In the second quarter of 2014, we saw the lingering effect of the first quarter weather patterns as school vacations were cancelled and the school year was extended in many markets impacting experiential children's retail such as ours whose traffic benefits when kids are out of school; and

We also believe that traffic was negatively impacted in the second quarter of 2014 as a result of our strategic decision to eliminate a gift-with-purchase promotion, along with its supporting marketing, that had run for several years in the second quarter but had failed to deliver a profitable return.

*Franchise fees and commercial revenue.* Revenue from franchise fees was \$1.7 million for the thirty-nine weeks ended September 27, 2014 compared to \$2.4 million for the thirty-nine weeks ended September 28, 2013 a decrease of \$0.7 million, primarily attributable to a decline in the number of franchise stores in operation in 2014. Commercial revenue was \$1.4 million for the thirty-nine weeks ended September 27, 2014 compared to \$1.7 million for the thirty-nine weeks ended September 28, 2013, a decrease of \$0.3 million. This decrease was primarily attributable to an overall decline in licensing activities.

### ***Cost and expenses***

*Gross margin.* Total gross margin increased to \$109.7 million for the thirty-nine weeks ended September 27, 2014 from \$106.7 million for the thirty-nine weeks ended September 28, 2013, an increase of \$3.0 million, or 2.8%. Retail gross margin increased to \$109.0 million for the thirty-nine weeks ended September 27, 2014 from \$105.8 million for the thirty-nine weeks ended September 28, 2013, an increase of \$3.2 million, or 3.0%. As a percentage of net retail sales, retail gross margin increased to 42.3% for the thirty-nine weeks ended September 27, 2014 from 39.6% for the thirty-nine weeks ended September 28, 2013. This 270 bps increase was primarily driven by a 300 bps improvement in merchandise margin driven by a combination of selected price increases and reduced product costs slightly offset by deleverage of fixed occupancy costs.

*Selling, general and administrative.* Selling, general and administrative expenses decreased to \$108.1 million for the thirty-nine weeks ended September 27, 2014 as compared to \$116.5 million for the thirty-nine weeks ended September 28, 2013, a decrease of \$8.4 million, or 7.2%. As a percentage of total revenues, selling, general and administrative expenses decreased to 41.4% for the thirty-nine weeks ended September 27, 2014 as compared to 43.0% for the thirty-nine weeks ended September 28, 2013, a decrease of 160 bps. The dollar decrease was primarily due to decreases in store payroll costs and other operational cost savings resulting from store closures, a decrease in management transition and store closing costs and our cost reduction efforts as compared to the prior year. As a percent of revenue, these decreases were partially offset by decreased leverage on fixed costs. Excluding the management transition and store closing costs, selling, general and administrative expenses as a percent of revenue decreased 60 bps, primarily due to the overall decrease in expenses from store closures and our ongoing cost reduction efforts and the elimination of certain marketing in the second quarter associated with a promotion in the prior year.

*Interest expense (income), net.* Interest income, net of interest expense, was \$40,000 and \$0.2 million for the thirty-nine weeks ended September 27, 2014 and September 28, 2013, respectively.

*Provision for income taxes.* The income tax expense was \$0.9 million for the thirty-nine weeks ended September 27, 2014 compared to \$0.4 million for the thirty-nine weeks ended September 27, 2014. The effective tax rate was 25.3% for the thirty-nine weeks ended September 27, 2014 compared to (5.8)% for the thirty-nine weeks ended September 28, 2013. The change in the effective rate is primarily attributable to state and withholding taxes, return-to-provision adjustments and adjustments to uncertain tax position reserves, partially offset by tax benefits recorded in foreign

jurisdictions.

### **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, but not limited to: (1) changes in general economic conditions and consumer spending patterns; (2) increases or decreases in our comparable store sales; (3) fluctuations in the profitability of our stores; (4) changes in foreign currency exchange rates; (5) the timing and frequency of our marketing initiatives, including national media and other public relations events; (6) the timing of our store openings and closings and related expenses; (7) changes in consumer preferences; (8) the effectiveness of our inventory management; (9) the actions of our competitors or mall anchors and co-tenants; (10) seasonal shopping patterns and holiday and vacation schedules; and (11) weather conditions.

The timing of store openings, closures and remodels may result in fluctuations in quarterly results as a result of the revenues and expenses associated with each store location. We typically incur most preopening costs for a new store in the three months immediately preceding the store's opening. Expenses related to store closings are typically incurred in stages: when the decision is made to close the store, when the closure is communicated to store associates and at the time of closure.

As a toy retailer, our sales are highest in our fourth quarter, followed by the first quarter. The timing of holidays and school vacations can impact our quarterly results. We cannot ensure that this will continue to be the case. 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, and the 2014 fiscal fourth quarter will have 14 weeks.

### **Liquidity and Capital Resources**

Our cash requirements are primarily for the relocation and remodeling of existing stores in our new design, opening of new stores, information systems and working capital. Over the past several years, we have met these requirements through capital generated from cash flow provided by operations. We have access to additional cash through our revolving line of credit that has been in place since 2000.



*Operating Activities.* Cash provided by operating activities was \$4.4 million for the thirty-nine weeks ended September 27, 2014, compared to cash used in operating activities of \$16.8 million for the thirty-nine weeks ended September 28, 2013, an increase of \$21.2 million. Generally, changes in cash from operating activities are driven by changes in net income or loss and changes in operating assets and liabilities. This increase in cash provided by operating activities over the year ago period was primarily due to improved store contribution and the timing of inventory receipts and payments.

*Investing Activities.* Cash used in investing activities was \$6.6 million for the thirty-nine weeks ended September 27, 2014 as compared to \$14.7 million for the thirty-nine weeks ended September 28, 2013, a decrease of \$8.1 million. Cash used in investing activities during the thirty-nine weeks ended September 27, 2014 primarily related to construction costs for new and remodeled stores, investments in central office information technology systems and purchases of short-term investments. Cash used in investing activities during the thirty-nine weeks ended September 28, 2013 primarily related to construction costs for new and remodeled stores, investments in central office information technology systems and the acquisition of trademarks and other intellectual property.

*Financing Activities.* Financing activities used cash of \$2.0 million in the thirty-nine weeks ended September 27, 2014, as purchases of our common stock used cash of \$3.2 million partially offset by cash provided from the exercises of employee stock options, net of shares used for withholding tax payments of \$1.3 million. Cash provided by financing activities in the thirty-nine weeks ended September 28, 2013 was \$0.7 million resulting from exercises of employee stock options, net of shares used for withholding tax payments. No borrowings were made under our line of credit in either the thirty-nine weeks ended September 27, 2014 or September 28, 2013.

*Capital Resources.* As of September 27, 2014, we had a consolidated cash balance of \$40.5 million over half of which was domiciled outside of the United States. We also have a line of credit, which we can use to finance capital expenditures and working capital needs throughout the year. The bank line provides availability of up to \$35 million. 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, 2015 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. We are also prohibited from repurchasing shares of our common stock unless such repurchase of shares would not violate any terms of the credit agreement; we may not use the proceeds of the line of credit to repurchase shares. Borrowings bear interest at LIBOR plus 1.8%. Financial covenants include maintaining a minimum tangible net worth, maintaining a minimum fixed charge coverage ratio (as defined in the credit agreement) and not exceeding a maximum funded debt to earnings before interest, depreciation and amortization ratio. As of September 27, 2014: (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 \$33.9 million available for borrowing under the line of credit.

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 to 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. 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.

In fiscal 2014, we expect to spend a total of \$12 to \$14 million on capital expenditures. Capital spending through the thirty-nine weeks ended September 27, 2014 totaled \$5.7 million. Capital spending in fiscal 2014 is primarily to support the refresh and repositioning of stores and investment in infrastructure.

We believe that cash generated from operations and available borrowings under our credit agreement will be sufficient to fund our working capital and other cash flow requirements for the near future. Our credit agreement expires on December 31, 2015.

On February 24, 2014, we announced that our share repurchase program had been extended to March 31, 2015. We currently intend to purchase up to an aggregate of \$50 million of our common stock in the open market (including through 10b5-1 plans), through privately negotiated transactions or through an accelerated repurchase transaction. The primary source of funding for the program has been and is expected to continue 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 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 have been, and will continue to be, subsequently retired. As of November 3, 2014, approximately 6.2 million shares at an average price of \$7.40 per share have been repurchased under this program for an aggregate amount of \$46.2 million, leaving \$3.8 million of availability under the program.

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

None

### **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.

We believe the 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 (SEC) on March 13, 2014, which includes audited consolidated financial statements for our 2013, 2012 and 2011 fiscal years. There have been no material changes to the critical accounting estimates disclosed in the 2013 Form 10-K.

### **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The ASU will be effective for us beginning January 1, 2017, and allows for both retrospective and prospective methods of adoption. We are in the process of determining the method of adoption and assessing the impact of this ASU on our consolidated financial statements.

**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 LIBOR plus 1.8%. We had no borrowings outstanding during the first nine months of fiscal 2014. 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 investment of excess cash in short term, investment grade interest-bearing securities. These investments are considered to be cash equivalents or short-term investments, based on their original maturity and are classified accordingly 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.**

Our management, with the participation of our Chief Executive Officer and Chief President Bear and Chief Financial Officer, has evaluated the effectiveness of our 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. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management, including our certifying officers, as appropriate to allow timely decisions regarding required disclosure. Based on the foregoing evaluation, our management, including the Chief Executive Officer and Chief President Bear and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 27, 2014, the end of the period covered by this Quarterly Report.

It should be noted that our management, including the Chief Executive Officer and Chief President Bear and the Chief Financial Officer, does not expect that our 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.

*Changes in Internal Control Over Financial Reporting.* The Company's management, with the participation of the Company's Chief Executive Officer and Chief President Bear and Chief Financial Officer, 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 material changes to our Risk Factors as disclosed in our Annual Report on Form 10-K for the year ended December 28, 2013 as filed with the SEC on March 13, 2014.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
<b>Jun. 29, 2014 – Jul. 26, 2014</b>	143,917	\$ 11.45	143,749	\$ 4,779,675
<b>Jul. 27, 2014 – Aug. 23, 2014</b>	81,443	\$ 10.46	81,443	\$ 3,928,059
<b>Aug. 24, 2014 – Sep. 27, 2014</b>	188	\$ 13.28	-	\$ 3,928,059
<b>Total</b>	225,548	\$ 11.09	225,192	

(1) Includes shares of our common stock delivered to us in satisfaction of the tax withholding obligation of holders of restricted shares which vested during the applicable period. Our equity incentive plans provide that the value of shares delivered to us to pay the withheld to cover tax obligations is calculated at the closing trading price of our common stock on the date the relevant transaction occurs.

(2) On February 24, 2014, we announced the further extension of our \$50 million share repurchase program of our outstanding common stock until March 31, 2015. 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. Purchase activity may be increased, decreased or discontinued at any time without notice. Shares purchased under the program are

subsequently retired.

## Item 6. Exhibits

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

### Exhibit No. Description

- |       |   |
|-------|---|
| 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)   |
| 10.1* | Employment, Confidentiality and Noncompete Agreement dated as of August 12, 2014 between Jennifer Kretchmar and the Registrant  |
| 10.2* | Employment, Confidentiality and Noncompete Agreement dated as of September 15, 2014 between Vojin Todorovic and the Registrant (incorporated by reference from Exhibit 10.1 of our Current Report on Form 8-K, filed on September 15, 2014)             |
| 10.3* | Separation Agreement and General Release, dated September 15, 2014, by and between Tina Klocke and Build-A-Bear Workshop, Inc. (incorporated by reference from Exhibit 10.2 to our Current Report on Form 8-K, filed on September 15, 2014)             |
| 10.4* | Separation Agreement and General Release, dated October 10, 2014, by and between Kenneth Wine and Build-A-Bear Workshop, Inc. (incorporated by reference from Exhibit 10.1 to our Current Report on Form 8-K, filed on October 14, 2014)                |
| 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 Officer and Chief President 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 Financial Officer)   |
| 32.1  | Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the Chief Executive Officer and Chief President Bear)  |
| 32.2  |   |



Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the Chief Financial Officer)

101.INS	XBRL Instance
101.SCH	XBRL Extension Schema
101.CAL	XBRL Extension Calculation
101.DEF	XBRL Extension Definition
101.LAB	XBRL Extension Label
101.PRE	XBRL Extension Presentation

\*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: November 6, 2014

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

By: /s/ Sharon John  
Sharon John  
Chief Executive Officer and Chief President Bear

(on behalf of the registrant and as principal executive officer)

By: /s/ Voin Todorovic  
Voin Todorovic  
Chief Financial Officer

(on behalf of the registrant and as principal financial officer)