BUILD A BEAR WORKSHOP INC
Form 10-Q
November 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 28, 2013

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

BUILD-A-BEAR WORKSHOP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**43-1883836**
(State or Other Jurisdiction of	**(IRS Employer**
Incorporation or Organization)	**Identification No.)**

1954 Innerbelt Business Center Drive	
St. Louis, Missouri	**63114**
(Address of Principal Executive Offices)	**(Zip Code)**

(314) 423-8000

(Registrant's Telephone Number, Including Area Code)

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 (Do not check if a smaller reporting company)	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 5, 2013, there were 17,350,519 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)

	September 28, 2013 (Unaudited)	**December 29,** 2012	**September 29,** 2012 (Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 13,802	$ 45,171	$ 22,145
Inventories	56,671	46,904	54,885
Receivables	10,515	9,428	4,721
Prepaid expenses and other current assets	14,602	14,216	13,569
Deferred tax assets	269	987	487
Total current assets	95,859	116,706	95,807
Property and equipment, net of accumulated depreciation of $179,915; $189,134 and $184,606, respectively	69,562	71,459	73,754
Goodwill	-	-	33,876
Other intangible assets, net	571	633	510
Other assets, net	3,025	3,304	7,218
Total Assets	$ 169,017	$ 192,102	$ 211,165
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 33,517	$ 38,984	$ 35,151
Accrued expenses	9,162	11,570	5,981
Gift cards and customer deposits	23,092	30,849	21,180
Deferred revenue	4,935	4,800	5,455
Total current liabilities	70,706	86,203	67,767
Deferred franchise revenue	1,000	1,177	1,238
Deferred rent	19,050	20,843	20,955
Other liabilities	492	742	257

Stockholders' equity:			
Preferred stock, par value $0.01, Shares authorized: 15,000,000; No shares issued or outstanding at September 28, 2013, December 29, 2012 and September 29, 2012		-	-
Common stock, par value $0.01, Shares authorized: 50,000,000; Issued and outstanding: 17,364,772; 17,068,182 and 17,351,904 shares, respectively	174	171	174
Additional paid-in capital	68,460	66,112	66,782
Accumulated other comprehensive loss	(7,843)	(7,683)	(7,020)
Retained earnings	16,978	24,537	61,012
Total stockholders' equity	77,769	83,137	120,948
Total Liabilities and Stockholders' Equity	$ 169,017	$ 192,102	$ 211,165

See accompanying notes to condensed consolidated financial statements.

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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		**Thirty-nine weeks ended**	
	September 28, 2013	**September 29,** 2012	**September 28,** 2013	**September 29,** 2012
Revenues:				
Net retail sales	$83,580	$84,263	$266,906	$258,452
Commercial revenue	451	908	1,674	1,989
Franchise fees	781	800	2,399	2,313
Total revenues	84,812	85,971	270,979	262,754
Costs and expenses:				
Cost of merchandise sold	50,197	53,887	161,837	163,057
Selling, general and administrative	35,819	36,573	116,455	113,774
Interest expense (income), net	(60)	(36)	(166)	(185)
Total costs and expenses	85,956	90,424	278,126	276,646
Loss before income taxes	(1,144)	(4,453)	(7,147)	(13,892)
Income tax expense (benefit)	210	(201)	412	(1,072)
Net loss	$(1,354)	$(4,252)	$(7,559)	$(12,820)
Foreign currency translation adjustment	1,106	2,063	(160)	3,145
Comprehensive loss	$(248)	$(2,189)	$(7,719)	$(9,675)
Loss per common share:				
Basic	$(0.08)	$(0.26)	$(0.46)	$(0.79)
Diluted	$(0.08)	$(0.26)	$(0.46)	$(0.79)
Shares used in computing common per share amounts:				
Basic	16,531,240	16,473,114	16,407,668	16,323,630
Diluted	16,531,240	16,473,114	16,407,668	16,323,630

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)

	Thirty-nine weeks ended	
	September 28, 2013	**September 29, 2012**
Cash flows from operating activities:		
Net loss	$ (7,559)	$ (12,820)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	14,399	15,832
Stock-based compensation	2,308	2,810
Deferred taxes	(26)	(1,533)
Loss from investment in affiliate	-	475
Impairment of store assets	649	319
Trade credit utilization	354	298
Loss on disposal of property and equipment	499	469
Change in assets and liabilities:		
Inventories	(9,656)	(2,629)
Receivables	(781)	3,186
Prepaid expenses and other assets	(197)	(1,276)
Accounts payable and accrued expenses	(7,165)	(9,320)
Lease related liabilities	(1,870)	(3,020)
Gift cards and customer deposits	(7,705)	(7,224)
Deferred revenue	(41)	(27)
Net cash used in operating activities	(16,791)	(14,460)
Cash flows from investing activities:		
Purchases of property and equipment	(14,490)	(13,036)
Purchases of other assets and other intangible assets	(203)	(371)
Proceeds from sale or maturitiy of short term investments	-	2,647
Investment in unconsolidated affiliate	-	(475)
Cash used in investing activities	(14,693)	(11,235)
Cash flows from financing activities:		
Exercise of employee stock options	655	-
Cash provided by financing activities	655	-
Effect of exchange rates on cash	(540)	1,473
Net decrease in cash and cash equivalents	(31,369)	(24,222)
Cash and cash equivalents, beginning of period	45,171	46,367
Cash and cash equivalents, end of period	$ 13,802	$ 22,145

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 (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 29, 2012 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. As a toy retailer, the Company’s sales are highest in the fourth quarter, followed by the first quarter. The timing of holidays and school vacations can impact quarterly results. 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 29, 2012 that were included in the Company’s annual report on Form 10-K filed with the SEC on March 14, 2013.

In the first quarter of fiscal 2013, the Company adopted new accounting guidance with regard to the presentation and disclosure of accumulated other comprehensive income (loss) in accordance with Accounting Standards Update 2013-02. The adoption of this guidance impacted only the presentation and disclosure of accumulated other comprehensive income (loss).

2. Prepaid Expenses and Other Current Assets

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

	September 28,	**December 29,**	**September 29,**

	2013	2012	2012
Prepaid rent	$ 8,347	$ 8,736	$ 8,026
Prepaid income taxes	679	-	365
Other	5,576	5,480	5,178
	$ 14,602	$ 14,216	$ 13,569

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 these quarterly reviews in fiscal 2013, 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- and $0.6 million were recorded in the thirteen and thirty-nine weeks ended September 28, 2013, respectively, and are included in selling, general and administrative expenses as a component of 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 thirteen and thirty-nine weeks ended September 29, 2012, included similar impairment charges of $0.1 million and $0.3 million, respectively.

4. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	September 28, 2013	December 29, 2012	September 29, 2012
Accrued wages, bonuses and related expenses	$ 6,422	$ 5,455	$ 3,459
Sales tax payable	2,212	5,216	1,697
Accrued rent and related expenses	328	811	725
Current income taxes payable	200	88	100
	$ 9,162	$ 11,570	$ 5,981

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 28, 2013:

	Restricted Stock	**Options**
Outstanding, December 29, 2012	860,325	1,155,239
Granted	459,140	498,318
Vested	397,368	—
Exercised	—	126,609
Forfeited	34,315	30,192
Canceled or expired	137,600	343,956
Outstanding, September 28, 2013	750,182	1,152,800

For the thirteen and thirty-nine weeks ended September 28, 2013, selling, general and administrative expense includes \$0.7 million and \$2.3 million, respectively, of stock-based compensation expense. For the thirteen and thirty-nine weeks ended September 29, 2012 selling, general and administrative expense includes \$0.8 million and \$2.8 million, respectively, of stock-based compensation expense. As of September 28, 2013, there was \$4.0 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 1.6 years.

The total fair value of shares vested during the thirty-nine weeks ended September 28, 2013 and September 29, 2012 was $2.2 million and $4.3 million, respectively.

6. Loss per Share

The Company uses the two-class method to compute basic and diluted 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 earnings per share (in thousands, except share and per share data):

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
NUMERATOR:				
Net loss before allocation of earnings to participating securities	$(1,354)	$(4,252)	$(7,559)	$(12,820)
Less: Earnings allocated to participating securities	-	-	-	-
Net loss after allocation of earnings to participating securities	$(1,354)	$(4,252)	$(7,559)	$(12,820)
DENOMINATOR:				
Weighted average number of common shares outstanding - basic	16,531,240	16,473,114	16,407,668	16,323,630
Dilutive effect of share-based awards:	-	-	-	-
Weighted average number of common shares outstanding - dilutive	16,531,240	16,473,114	16,407,668	16,323,630
Basic loss per common share attributable to Build-A-Bear Workshop, Inc. stockholders:	$(0.08)	$(0.26)	$(0.46)	$(0.79)
Diluted loss per common share attributable to Build-A-Bear Workshop, Inc. stockholders	$(0.08)	$(0.26)	$(0.46)	$(0.79)

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. For the thirteen thirty-nine weeks ended September 29, 2012, options to purchase 1,166,350 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 and September 29, 2012, 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.

7. Income Taxes

In prior years, the Company recorded a valuation allowance on substantially all of its deferred tax assets. The effective tax rate was (18.4)% and (5.8)% for the thirteen and thirty-nine weeks ended September 28, 2013, respectively compared to 4.5% and 7.7% for the thirteen and thirty-nine weeks ended September 29, 2012, respectively.

8. Comprehensive 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 28, 2013 and December 29, 2012 is comprised entirely of foreign currency translation. For the thirteen and thirty-nine weeks ended September 28, 2013 and September 29, 2012, 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, commercial and international franchising. 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 web store, pop-up stores and non-traditional store locations such as baseball parks. 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 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, Mexico and South America. 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	**Commercial**	**International** Franchising	**Total**
Thirteen weeks ended September 28, 2013				
Net sales to external customers	$83,580	$ 451	$ 781	$84,812
Income (loss) before income taxes	(1,817)	277	396	(1,144)
Capital expenditures, net	5,657	-	20	5,677
Depreciation and amortization	4,677	-	45	4,722
Thirteen weeks ended September 29, 2012				
Net sales to external customers	$84,263	$ 908	$ 800	$85,971
Income (loss) before income taxes	(5,254)	453	348	(4,453)
Capital expenditures, net	5,063	-	40	5,103
Depreciation and amortization	5,152	-	44	5,196
Thirty-nine weeks ended September 28, 2013				
Net sales to external customers	$266,906	$ 1,674	$ 2,399	$270,979
Income (loss) before income taxes	(8,695)	902	646	(7,147)
Capital expenditures, net	14,600	-	93	14,693
Depreciation and amortization	14,263	-	136	14,399
Thirty-nine weeks ended September 29, 2012				
Net sales to external customers	$258,452	$ 1,989	$ 2,313	$262,754
Income (loss) before income taxes	(15,692)	688	1,112	(13,892)
Capital expenditures, net	13,320	-	87	13,407
Depreciation and amortization	15,699	-	133	15,832
Total Assets as of:				
September 28, 2013	$159,529	$ 6,370	$ 3,118	$169,017
September 29, 2012	$199,612	$ 9,149	$ 2,404	$211,165

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):

	North America (1)	**Europe (2)**	**Other (3)**	**Total**
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
Thirteen weeks ended September 29, 2012				
Net sales to external customers	$68,545	$16,951	$475	$85,971
Property and equipment, net	62,644	11,110	-	73,754
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
Thirteen weeks ended September 29, 2012				
Net sales to external customers	$214,157	$47,236	$1,361	$262,754
Property and equipment, net	62,644	11,110	-	73,754

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 28, 2013, $2.7 million had been paid in respect of the disputed duty and is included in receivables in the Retail segment.

11. Subsequent Event

In the period from September 29, 2013 through November 5, 2013, the Company repurchased approximately 28,000 shares of its common stock for an aggregate amount of $0.2 million, leaving $7.1 million of availability under the 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. Our actual results may differ materially from the results discussed in the forward-looking statements, and we undertake no obligation to update these statements except as required by federal securities laws. These risks and uncertainties include, without limitation, those detailed under the captions "Risk Factors" and "Forward-Looking Statements" in our annual report on Form 10-K for the year ended December 29, 2012, as filed with the SEC on March 14, 2013, and the following:

- general global economic conditions may continue to deteriorate, which could lead to disproportionately reduced consumer demand for our products, which represent relatively discretionary spending;
- customer traffic may 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 on-line 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 effectively operate or manage the overall portfolio of our company-owned stores;
- we may not be able to operate our company-owned stores in the United Kingdom and Ireland profitably;
- 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 availability and costs of our products could be adversely affected by risks associated with international manufacturing and trade, including foreign currency fluctuation;
- 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 are susceptible to disruption in our inventory flow due to our reliance on a few vendors;
- high petroleum products prices could adversely affect our profitability;
- we may be unable to effectively manage our international franchises or laws relating to those franchises may change;
- we may improperly obtain or be unable to adequately protect customer information in violation of privacy or security laws or customer expectations;
- we may suffer negative publicity or be sued due to violations of labor laws or unethical practices by manufacturers of our merchandise;
- we may suffer negative publicity or negative sales if the non-proprietary toy products we sell in our stores do not meet our quality or sales expectations;
- we may be unable to operate our company-owned distribution center efficiently or our third-party distribution center providers may perform poorly;
- 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 may be sued by, third parties for infringement or misappropriation of their proprietary rights;

poor global economic conditions could have a material adverse effect on our liquidity and capital resources;

fluctuations in our quarterly results of operations could cause the price of our common stock to substantially decline;

we may be unable to repurchase shares of our common stock 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; and

our corporate structure and Delaware law may prevent or frustrate attempts to replace or remove our current management by our stockholders.

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.

Build-A-Bear Workshop is in a turnaround phase as we work to improve store productivity and profitability. We are taking actions to change our business dynamics with a reinvented store design, aggressive repositioning of our portfolio of stores, including closures and remodels that will reduce square footage, and a rebalancing of our marketing to include higher levels of brand advertising. We currently expect to have approximately 310 company-owned stores at the end of 2014, 250 stores in North America and 60 stores in the United Kingdom and Ireland. We believe the actions we are taking will result in improvements in productivity and profitability and, ultimately, stakeholder value. We also believe there are additional international growth opportunities, primarily through existing and new franchises.

As of September 28, 2013, we operated 254 traditional stores and six non-traditional stores in United States, Canada and Puerto Rico (collectively, North America), 60 traditional stores in the United Kingdom and Ireland (collectively, Europe) and had 85 franchised stores operating internationally under the Build-A-Bear Workshop brand. Non-traditional store locations include stores in a Major League Baseball® stadium, a zoo and an airport, as well as temporary pop-up locations. In order to capitalize on short-term opportunities in specific locations, we have selectively opened temporary, pop-up locations. In addition to our stores, we market our products and build our brand through our Web sites.

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

- Retail – Company-owned traditional and non-traditional retail stores located in North America and Europe and e-commerce Web sites or “web stores”;

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

- International Franchising – Other international stores operated under franchise agreements.

Selected financial data attributable to each segment for the thirteen and thirty-nine weeks ended September 28, 2013 and September 29, 2012 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 web store 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:

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 28, 2013	**September 29, 2012**	**September 28, 2013**	**September 29, 2012**
North America	**7.6%**	(11.8)%	**9.1%**	(3.4)%
Europe	**2.3%**	(7.9)%	**4.6%**	(6.7)%
Consolidated	**6.4%**	(11.1)%	**8.2%**	(4.0)%

We attribute the increase in comparable store sales for the periods presented primarily to impact of our brand marketing and product strategies which have improved results in our overall store base and our real estate optimization strategies which have driven sales in selective markets impacted by store closures and remodels.

We believe the growth in our base business accounted for approximately 70% of the overall comparable store sales increases in the 2013 third quarter and 80% in the year to date period driven by:

- Our brand building marketing initiatives, including national television advertising in the United States, and intensified communication with moms, along with a good balance of proprietary and licensed product which we believe increased traffic to our stores and contributed to the increase in transactions;

- The elimination of a significant promotion and related discounts that ran in the 2012 third quarter which contributed to higher transaction value in the 2013 third quarter; and

- The 30% increase in the issuance of gift cards on a consolidated basis during the 2012 fourth quarter, followed by a 19% increase in the first thirty-nine weeks of 2013, which contributed to increased retail sales as the cards were redeemed.

We believe that our real estate optimization strategies drove the remaining 30% and 20% of the overall comparable store sales increases in the 2013 third quarter and year to date period, respectively. The real estate optimization plans include selective store closures, primarily in North American multi-store markets as well as updates and remodels of selective other stores. Approximately 20% of sales, on average, have transferred from closed stores to remaining stores in the markets in both the 2013 third quarter and year to date periods. Sales in remodeled stores, on average, have increased by approximately 20% in the 2013 third quarter and year to date periods.

The Company is working to build on this positive trend in comparable store sales with the following key initiatives:

We are aggressively working to increase store traffic and the destination appeal of our stores by:

- increasing productivity and profitability of our existing stores through strategic closures, primarily in multi-store markets where we expect to transfer a portion of the closed stores' sales to remaining stores in the market and the relocation of select other stores with a reduction in square footage thereby improving their productivity;
- enhancing our experience with a new store design; and
- increasing shopping frequency by increasing new and repeat guest traffic to our stores through a rebalanced marketing message to include both product and brand.

We plan to capitalize on our brand advertising to increase gift card purchases by reminding consumers about the gift of our experience.

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:

2013	
Thirty-nine Weeks Ended September 28, 2013	**Fifty-two Weeks Ended December 28, 2013 - Projected**

	December 29, 2012	Opened	Closed	September 28, 2013	December 29, 2012	Opened	Closed	December 28, 2013
North America								
Traditional	283	3	(32)	254	283	4	(34)	253
Non-traditional	8	-	(2)	6	8	3	(2)	9
	291	3	(34)	260	291	7	(36)	262
Europe	60	-	-	60	60	-	(1)	59
Total	351	3	(34)	320	351	7	(37)	321

2012

	Thirty-nine Weeks Ended September 29, 2012				Fifty-two Weeks Ended December 29, 2012			
	December 31, 2011	Opened	Closed	September 29, 2012	December 31, 2011	Opened	Closed	December 29, 2012
North America								
Traditional	287	1	(5)	283	287	2	(6)	283
Non-traditional	11	1	(2)	10	11	1	(4)	8
	298	2	(7)	293	298	3	(10)	291
Europe	58	-	-	58	58	2	-	60
Total	356	2	(7)	351	356	5	(10)	351

Our long term real estate goal is to bring our stores back to best in class productivity and profitability. We currently expect to have approximately 310 Build-A-Bear Workshop stores, 250 in North America and 60 in the United Kingdom and Ireland, at the end of fiscal 2014. We currently expect to reach this level with the closure of 10 to 25 additional stores through 2014, primarily in North America, along with limited, opportunistic store openings. Locations to close and the timing of the closures are subject to ongoing negotiations and overall economic considerations as market repositioning and optimization plans are continually reevaluated.

Integral to the success of this strategy is the opening of our new store design which gives certain stores destination appeal and increases productivity in the market. The new design merges Build-A-Bear Workshop's iconic hands-on bear-making process with the power of technology to provide a new, highly interactive experience for our guests. We opened the first store with the new design in the third quarter of fiscal 2012. As of November 5, 2013, we have opened 29 of these stores. On average, sales at these locations have increased by nearly 20%. We plan to have approximately 30 locations in the new design operating by the end of 2013.

We have been aggressively renegotiating rents and executing short term extensions to line up lease dates within markets as part of an overall strategic plan to optimize our store locations and market positioning. As part of this strategy, we will continue to close underperforming stores in conjunction with natural lease expirations and kick out clauses, primarily in multi-store markets. In these markets, we have transferred, on average, approximately 20% of the sales from closing stores to other locations in the same market. As of November 5, 2013, we have closed 36 stores in fiscal 2013.

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:

	Thirty-nine weeks ended September 28, 2013	**September 29, 2012**
Beginning of period	**91**	79
Opened	**7**	12
Closed	**(13)**	(4)
End of period	**85**	87

As of September 28, 2013, we had master franchise agreements, which typically grant franchise rights for a particular country or countries, covering 16 countries. We anticipate signing additional master franchise agreements in the future. We currently expect to end fiscal 2013 with 87 franchised locations. We believe there is a market potential for existing and new franchisees to operate approximately 300 franchised stores outside of the United States, Canada, Puerto Rico, the United Kingdom and Ireland.

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)

	Thirteen weeks ended		**Thirty-nine weeks ended**	
	September 28, 2013	**September 29, 2012**	**September 28, 2013**	**September 29, 2012**
Revenues:				
Net retail sales	98.5%	98.0%	98.5%	98.4%
Commercial revenue	0.5	1.1	0.6	0.8
Franchise fees	0.9	0.9	0.9	0.9
Total revenues	100.0	100.0	100.0	100.0
Costs and expenses:				
Cost of merchandise sold [(1)]	59.7	63.3	60.3	62.6
Selling, general and administrative	42.2	42.5	43.0	43.3
Interest expense (income), net	(0.0)	(0.0)	(0.1)	(0.1)
Total costs and expenses	101.3	105.2	102.6	105.3
Loss before income taxes	(1.3)	(5.2)	(2.6)	(5.3)
Income tax expense (benefit)	0.2	(0.2)	0.2	(0.4)
Net loss	(1.6)	(4.9)	(2.8)	(4.9)
Retail Gross Margin % [(2)]	40.1%	36.5%	39.6%	37.3%

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

(2) Retail gross margin represents net retail sales less cost of retail merchandise sold, which excludes cost of wholesale merchandise sold. Retail gross margin was $33.5 million and $105.8 million for the thirteen and thirty-nine weeks ended September 28, 2013, respectively and $30.8 million and $96.4 million for the thirteen and thirty-nine weeks ended September 29, 2012, respectively. Retail gross margin percentage represents retail gross margin divided by net retail sales.

Thirteen weeks ended September 28, 2013 compared to thirteen weeks ended September 29, 2012

Revenues

Net retail sales. Net retail sales were $83.6 million for the thirteen weeks ended September 28, 2013 compared to $84.3 million for the thirteen weeks ended September 29, 2012, a decrease of $0.7 million, or 0.8%. The components of this decrease are as follows:

	Thirteen weeks ended September 28, 2013 (dollars in millions)
Impact of store closures	**$ (6.1)**
Increase in comparable store sales	**4.5**
Increase in non-comparable stores, primarily remodels and relocations	**0.9**
Increase from new stores	**0.4**
Increase from non-traditional locations, including web sales	**0.1**
Impact of foreign currency translation	**(0.5)**
	$ (0.7)

We attribute the increase in comparable store sales for the periods presented primarily to impact of our brand marketing and product strategies which have improved results in our overall store base and our real estate optimization strategies which have driven sales in selective markets impacted by store closures and remodels.

We believe the growth in our base business accounted for approximately 70% of the overall comparable store sales increase in the 2013 third quarter driven by:

- Our brand building marketing initiatives, including national television advertising in the United States, and intensified communication with moms, along with a good balance of proprietary and licensed product which we believe increased traffic to our stores and contributed to the increase in transactions;

- The elimination of a significant promotion and related discounts that ran in the 2012 third quarter which contributed to higher transaction value in the 2013 third quarter, and

- The 30% increase in the issuance of gift cards on a consolidated basis during the 2012 fourth quarter, followed by a 19% increase in the first thirty-nine weeks of 2013, which contributed to increased retail sales as the cards were redeemed.

We believe that our real estate optimization strategies drove the remaining 30% of the overall comparable store sales increase in the 2013 third quarter. The real estate optimization plans include selective store closures, primarily in North American multi-store markets as well as updates and remodels of selective other stores. Approximately 20% of sales, on average, have transferred from closed stores to remaining stores in the markets in the 2013 third quarter. Sales in remodeled stores, on average, have increased by approximately 20% in the 2013 third quarter.

Commercial revenue and franchise fees. Commercial revenue was $0.5 million for the thirteen weeks ended September 28, 2013, from $0.9 million for the thirteen weeks ended September 29, 2012, a decrease of $0.5 million, primarily attributable to a decline in licensing activity. Revenue from franchise fees was $0.8 million for both the thirteen weeks ended September 28, 2013 and September 29, 2012.

Costs and expenses

Gross margin. Total gross margin increased to $33.8 million for the thirteen weeks ended September 28, 2013 from $31.3 million for the thirteen weeks ended September 29, 2012, an increase of $2.6 million, or 8.2%. Retail gross margin increased to $33.5 million for the thirteen weeks ended September 28, 2013 from $30.8 million for the thirteen weeks ended September 29, 2012, an increase of $2.7 million, or 8.8%. As a percentage of net retail sales, retail gross margin was 40.1% for the thirteen weeks ended September 28, 2013 compared to 36.5% for the thirteen weeks ended September 29, 2012. This 360 basis points as a percentage of net retail sales (bps) increase was primarily driven by a 190 bps improvement in merchandise margin driven by decreased promotional activity and a 170 bps improvement in leverage of fixed occupancy costs.

Selling, general and administrative. Selling, general and administrative expenses were $35.8 million for the thirteen weeks ended September 28, 2013 as compared to $36.6 million for the thirteen weeks ended September 29, 2012, a decrease of $0.8 million, or 2.1%. As a percentage of total revenues, selling, general and administrative expenses decreased to 42.2% for the thirteen weeks ended September 28, 2013 as compared to 42.5% for the thirteen weeks ended September 29, 2012, a decrease of 30 bps. The 2013 third quarter included $0.4 million in one-time 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 80 bps, primarily due to decreases in store payroll costs and other operational cost savings resulting from store closures and our cost reduction efforts that were partially offset by higher incentive compensation.

Interest expense (income), net. Interest income, net of interest expense, was $60,000 for the thirteen weeks ended September 28, 2013, as compared to $40,000 for the thirteen weeks ended September 29, 2012.

Provision for income taxes. The income tax expense was $0.2 million for the thirteen weeks ended September 28, 2013 compared to the income tax benefit of $0.2 million for the thirteen weeks ended September 29, 2012. The effective tax rate was (18.4)% for the thirteen weeks ended September 28, 2013 compared to 4.5% for the thirteen weeks ended September 29, 2012. The change in the effective tax rate was primarily attributable to the impact of recording valuation allowances on both foreign and domestic deferred tax assets in prior periods.

Thirty-nine weeks ended September 28, 2013 compared to thirty-nine weeks ended September 29, 2012

Revenues

Net retail sales. Net retail sales increased to $266.9 million for the thirty-nine weeks ended September 28, 2013 compared to $258.5 million for the thirty-nine weeks ended September 29, 2012, an increase of $8.5 million, or 3.3%. The components of this increase are as follows:

	Thirty-nine weeks ended September 28, 2013 (dollars in millions)

Impact of store closures	$	**(13.6)**
Increase in comparable store sales		**18.4**
Increase in non-comparable stores, primarily remodels and relocations		**2.8**
Increase from new stores		**1.3**
Increase from non-traditional locations, including web sales		**0.6**
Impact of foreign currency translation		**(1.0)**
	$	**8.5**

We attribute the increase in comparable store sales for the periods presented primarily to impact of our brand marketing and product strategies which have improved results in our overall store base and our real estate optimization strategies which have driven sales in selective markets impacted by store closures and remodels.

We believe the growth in our base business accounted for approximately 70% of the overall comparable store sales increases in the 2013 third quarter and 80% in the year to date period driven by:

- Our brand building marketing initiatives, including national television advertising in the United States, and intensified communication with moms, along with a good balance of proprietary and licensed product which we believe increased traffic to our stores and contributed to the increase in transactions;

- The 30% increase in the issuance of gift cards on a consolidated basis during the 2012 fourth quarter, followed by a 19% increase in the first thirty-nine weeks of 2013, which contributed to increased retail sales as the cards were redeemed.

We believe that our real estate optimization strategies drove the remaining 20% of the overall comparable store sales increase in the 2013 year to date period. The real estate optimization plans include selective store closures, primarily in North American multi-store markets as well as updates and remodels of selective other stores. Approximately 20% of sales, on average, have transferred from closed stores to remaining stores in the markets in the year to date period. Sales in remodeled stores, on average, have increased by approximately 20% in the 2013 year to date period.

Commercial revenue and franchise fees. Commercial revenue was $1.7 million for the thirty-nine weeks ended September 28, 2013 compared to $2.0 million for the thirty-nine weeks ended September 29, 2012, a decrease of $0.3 million. This decrease was primarily attributable to an overall decline in licensing activities. Revenue from franchise fees was $2.4 million and $2.3 million for the thirty-nine weeks ended September 28, 2013 and September 29, 2012, respectively.

Cost and expenses

Gross margin. Total gross margin increased to $106.7 million for the thirty-nine weeks ended September 28, 2013 from $97.4 million for the thirty-nine weeks ended September 29, 2012, an increase of $9.4 million, or 9.6%. Retail gross margin increased to $105.8 million for the thirty-nine weeks ended September 28, 2013 from $96.4 million for the thirty-nine weeks ended September 29, 2012, an increase of $9.4 million, or 9.8%. As a percentage of net retail sales, retail gross margin increased to 39.6% for the thirty-nine weeks ended September 28, 2013 from 37.3% for the thirty-nine weeks ended September 29, 2012. This 230 bps increase was primarily driven by a 200 bps improvement in leverage of fixed occupancy costs and a 30 bps improvement in merchandise margin driven by decreased promotional activity.

Selling, general and administrative. Selling, general and administrative expenses were $116.5 million for the thirty-nine weeks ended September 28, 2013 as compared to $113.8 million for the thirty-nine weeks ended September 29, 2012, an increase of $2.7 million, or 2.4%. As a percentage of total revenues, selling, general and administrative expenses decreased to 43.0% for the thirty-nine weeks ended September 28, 2013 as compared to 43.3% for the thirty-nine weeks ended September 29, 2012, a decrease of 30 bps. The dollar increase was primarily attributable to $2.7 million in one-time management transition costs and $1.1 million in store closing costs. As a percent of revenue, these costs were offset by improved leverage on increased revenue. Excluding the management transition and store closing costs, selling, general and administrative expenses as a percent of revenue decreased 140 bps, primarily due to the overall decrease in expenses from store closures and our cost reduction efforts partially offset by higher incentive compensation.

Interest expense (income), net. Interest income, net of interest expense, was $0.2 million for both the thirty-nine weeks ended September 28, 2013 and September 29, 2012.

Provision for income taxes. The income tax expense was $0.4 million for the thirty-nine weeks ended September 28, 2013 as compared to the income tax benefit of $1.1 million for the thirty-nine weeks ended September 29, 2012. The effective tax rate was (5.8)% for the thirty-nine weeks ended September 28, 2013 compared to 7.7% for the thirty-nine weeks ended September 29, 2012. The change in the effective tax rate was primarily attributable to the impact of recording valuation allowances on both foreign and domestic deferred tax assets in prior periods.

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 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 used in operating activities was $16.8 million for the thirty-nine weeks ended September 28, 2013 as compared with $14.5 million for the thirty-nine weeks ended September 29, 2012, an increase of $2.3 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 used in operating activities over the year ago period was primarily due to the timing of inventory receipts and payments, partially offset by increased store contribution.

Investing Activities. Cash used in investing activities was $14.7 million for the thirty-nine weeks ended September 28, 2013 as compared to $11.2 million for the thirty-nine weeks ended September 29, 2012, an increase of $3.5 million. 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. Cash used in investing activities during the thirty-nine weeks ended September 29, 2012 primarily related to investments in central office information technology systems, new store construction costs and the acquisition of trademarks and other intellectual property.

Financing Activities. Cash provided by financing activities was $0.7 million in the thirty-nine weeks ended September 28, 2013. No cash was used in or provided by financing activities in the thirty-nine weeks ended September 29, 2012. In 2013, the cash from financing activities resulting from the exercise of employee stock options. No borrowings were made under our line of credit in either the thirty-nine weeks ended September 28, 2013 or September 29, 2012.

Capital Resources. As of September 28, 2013, we had a consolidated cash balance of $13.8 million, the majority of which was held 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 credit agreement is with U.S. Bank, National Association and was amended effective April 30, 2013. The bank line provides availability of $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, 2014 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 28, 2013: (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 2013, we expect to spend a total of approximately $20 million on capital expenditures. Capital spending through the thirty-nine weeks ended September 28, 2013 totaled $14.7 million, on track with our full year plans. Capital spending in fiscal 2013 is primarily for the remodeling and opening of stores in our new design and the continued installation and upgrades of central office information technology systems.

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, 2014.

On February 20, 2007, we announced that our board of directors had authorized a $25 million share repurchase program of our outstanding common stock. On March 10, 2008, we announced an expansion of our share repurchase program to $50 million. On February 28, 2013, we announced that our share repurchase program had been extended to March 31, 2014. 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 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 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 5, 2013, approximately 5.9 million shares at an average price of $7.24 per share have been repurchased under this program for an aggregate amount of $42.7 million, leaving $7.3 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 14, 2013, which includes audited consolidated financial statements for our 2012, 2011 and 2010 fiscal years. There have been no material changes to the critical accounting estimates disclosed in the 2012 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 LIBOR plus 1.8%. We had no borrowings outstanding during the first nine months of fiscal 2013. 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 Operations and Financial Bear, 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 Operations and Financial Bear, concluded that our disclosure controls and procedures were effective as of September 28, 2013, 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 Operations and Financial Bear, 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 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 material changes to our Risk Factors as disclosed in our Annual Report on Form 10-K for the year ended December 29, 2012 as filed with the SEC on March 14, 2013.

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) the May Yet Be Purchased Under the Plans or Programs (2)
Jun. 30, 2013 – Jul. 27, 2013	168	$ 6.22	-	$ 7,364,562
Jul. 28, 2013 – Aug. 24, 2013	213	$ 7.13	-	$ 7,364,562
Aug. 25, 2013 – Sep. 28, 2013	284	$ 7.15	-	$ 7,364,562
Total	665	$ 6.91	-	

(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 28, 2013, we announced the further extension of our $50 million share repurchase program of our outstanding common stock until March 31, 2014. 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)
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 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 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 Operations and Financial Bear)
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

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 7, 2013

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/ Tina Klocke Tina Klocke Chief Operations and Financial Bear, Treasurer and Secretary (on behalf of the registrant and as principal financial officer)