BUILD A BEAR WORKSHOP INC
Form 10-Q
November 12, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended October 2, 2010

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 (State or Other Jurisdiction of Incorporation or Organization)	43-1883836 (IRS Employer Identification No.)
1954 Innerbelt Business Center Drive St. Louis, Missouri (Address of Principal Executive Offices)	63114 (Zip Code)

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

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 x 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 x
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 x

As of November 8, 2010, there were 19,554,043 issued and outstanding shares of the registrant's common stock.

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

	October 2, 2010	January 2, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$24,660	$60,399
Inventories	54,726	44,384
Receivables	5,790	5,337
Prepaid expenses and other current assets	19,247	19,329
Deferred tax assets	6,874	6,306
Total current assets	111,297	135,755
Property and equipment, net of accumulated depreciation		
of $160,162 and $144,413, respectively	90,397	101,044
Goodwill	33,044	33,780
Other intangible assets, net	2,657	3,601
Other assets, net	15,476	10,093
Total Assets	$252,871	$284,273
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$32,369	$32,822
Accrued expenses	6,202	11,185
Gift cards and customer deposits	21,736	29,301
Deferred revenue	9,952	8,582
Total current liabilities	70,259	81,890
Deferred franchise revenue	1,604	2,027
Deferred rent	30,296	34,760
Other liabilities	794	816
Stockholders' equity:		
Preferred stock, par value $0.01, Shares authorized: 15,000,000; No shares		
issued or outstanding at October 2, 2010 and January 2, 2010	-	-
Common stock, par value $0.01, Shares authorized: 50,000,000;		
Issued and outstanding: 19,560,591 and 20,447,343 shares, respectively	196	204
Additional paid-in capital	75,349	80,122
Accumulated other comprehensive loss	(8,242)	(6,336)
Retained earnings	82,615	90,790
Total stockholders' equity	149,918	164,780

Total Liabilities and Stockholders' Equity	$252,871	$284,273

See accompanying notes to condensed consolidated financial statements.

BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands, except share and per share data)

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Revenues:				
Net retail sales	$91,689	$89,731	$263,963	$267,354
Commercial revenue	7,637	1,670	9,588	3,336
Franchise fees	767	945	2,112	2,153
Total revenues	100,093	92,346	275,663	272,843
Costs and expenses:				
Cost of merchandise sold	62,710	57,630	172,150	174,021
Selling, general and administrative	39,113	39,255	115,048	113,683
Store preopening	255	73	343	90
Store closing	-	250	-	981
Equity losses from investment in affiliate	-	4,592	-	5,125
Interest expense (income), net	(83)	(44)	(191)	(92)
Total costs and expenses	101,995	101,756	287,350	293,808
Loss before income taxes	(1,902)	(9,410)	(11,687)	(20,965)
Income tax benefit	(524)	(4,647)	(3,511)	(9,408)
Net loss	$(1,378)	$(4,763)	$(8,176)	$(11,557)
Loss per common share:				
Basic	$(0.07)	$(0.25)	$(0.44)	$(0.61)
Diluted	$(0.07)	$(0.25)	$(0.44)	$(0.61)
Shares used in computing common per share amounts:				
Basic	18,426,860	18,876,697	18,755,941	18,844,009
Diluted	18,426,860	18,876,697	18,755,941	18,844,009

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	
	October 2, 2010	October 3, 2009
Cash flows from operating activities:		
Net loss	$(8,176)	$(11,557)
Adjustments to reconcile net loss to		
net cash used in operating activities:		
Depreciation and amortization	20,338	21,114
Impairment of store assets	306	312
Deferred taxes	(1,877)	(1,695)
Equity losses from investment in affiliate	-	5,125
Loss on disposal of property and equipment	404	138
Stock-based compensation	3,661	3,145
Change in assets and liabilities:		
Inventories	(14,562)	2,435
Receivables	(819)	3,224
Prepaid expenses and other assets	(461)	(5,114)
Accounts payable	510	(8,616)
Accrued expenses and other liabilities	(16,615)	(19,422)
Net cash used in operating activities	(17,291)	(10,911)
Cash flows from investing activities:		
Purchases of property and equipment	(9,697)	(4,384)
Purchases of other assets and other intangible assets	(511)	(2,267)
Investment in affiliate	-	(562)
Cash flow used in investing activities	(10,208)	(7,213)
Cash flows from financing activities:		
Exercise of employee stock options and employee stock purchases	46	-
Purchases of Company's common stock	(7,274)	-
Cash flow used in financing activities	(7,228)	-
Effect of exchange rates on cash	(1,012)	(1,833)
Net decrease in cash and cash equivalents	(35,739)	(19,957)
Cash and cash equivalents, beginning of period	60,399	47,000
Cash and cash equivalents, end of period	$24,660	$27,043
Supplemental disclosure of cash flow information:		
Cash received during the period for income taxes, net of taxes paid:	$3,271	$1,277
Noncash Transactions:		
Return of common stock in lieu of tax witholdings and option exercises	$706	$311
Exchange of inventory for media credits	$4,277	$-

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 January 2, 2010 was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and reflect all adjustments which are, in the opinion of management, necessary to summarize fairly the financial position of the Company and the results of the Company's operations and cash flows for the periods presented. All of these adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Because of the seasonal nature of the Company's operations, results of operations of any single reporting period should not be considered as indicative of results for a full year. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended January 2, 2010 included in the Company's annual report on Form 10-K filed with the SEC on March 18, 2010.

The commercial segment, formerly referred to as the licensing and entertainment segment, includes the Company's transactions with other business partners, mainly in licensing and wholesale transactions. Licensing revenue has historically included an immaterial amount of wholesale revenue. In the 2010 third quarter, the wholesale revenues became significant. Accordingly, the name and description of the segment has been expanded to more fully describe the significant activities. No changes to prior year licensing revenue amounts were required to conform to the current year presentation.

Certain revenues within the Commercial segment were previously reported net of the related cost of sales and are now reported on a gross revenue basis. Prior year amounts have been conformed to match the current year's presentation. The impact for the thirteen and thirty-nine weeks ended October 3, 2009 was an increase to both commercial revenue and cost of sales of $0.6 million and $1.4 million, respectively.

2. Prepaid Expenses and Other Assets

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

	October 2, 2010	January 2, 2010
Prepaid rent	$8,017	$8,334
Prepaid income taxes	4,373	6,600
Other	6,857	4,395
	$19,247	$19,329

3. Goodwill

Goodwill is accounted for in accordance with ASC Section 350-20 and is reported as a component of the Company's retail segment. The following table summarizes the changes in goodwill for the thirty-nine weeks ended October 2, 2010 (in thousands):

Balance as of January 2, 2010	$33,780

Effect of foreign currency translation	(736)
Balance as of October 2, 2010	$33,044

Goodwill is not subject to amortization and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. This testing requires comparison of carrying values to fair values, and when appropriate, the carrying value of impaired assets is reduced to fair value. Goodwill will be tested for impairment no later than January 1, 2011.

4. Asset Impairment

During the 2010 second quarter, the Company reviewed the inputs used to determine the fair value of certain key money deposits, included in other intangible assets and other store deposits, included in other assets, net, through expected undiscounted cash flows over the remaining life of the related assets. Accordingly, the carrying value of the assets was reduced to fair value, calculated as the net present value of estimated future cash flows for each asset group, and asset impairment charges of $0.3 million were recorded in the second quarter of fiscal 2010, which are included in selling, general and administrative expenses as a component of net 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.

5. Other Non-current Assets

In the 2010 third quarter, certain other non-current assets were obtained through a single wholesale transactions whereby the Company exchanged $5.8 million of inventory, at cost, with a third-party vendor for $4.3 million of credits for future media purchases and $1.5 million in cash. The transaction was accounted for based upon the fair values of the assets involved in the transaction. In accordance with Accounting Standards Codification (ASC) Section 845-10, in an exchange transaction for advertising credits, the fair value of the asset being surrendered cannot exceed its carrying value, meaning that the sale of the inventory was recorded at its cost in the Commercial segment. The media credits expire in 2015.

6. Stock-based Compensation

The Company accounts for stock-based compensation in accordance with ASC Section 718. The Company uses the straight-line expense attribution method for all stock-based compensation awards with graded vesting.

For the thirteen and thirty-nine weeks ended October 2, 2010, selling, general and administrative expenses includes $1.2 million ($0.7 million after tax) and $3.7 million ($2.2 million after tax), respectively, of stock-based compensation expense. For the thirteen and thirty-nine weeks ended October 3, 2009, selling, general and administrative expense includes $1.1 million ($0.7 million after tax) and $3.1 million ($1.9 million after tax), respectively, of stock-based compensation expense.

As of October 2, 2010, there was $8.1 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.

7. Stock Incentive Plans

On April 3, 2000, the Company adopted the 2000 Stock Option Plan (the Plan). In 2003, the Company adopted the Build-A-Bear Workshop, Inc. 2002 Stock Incentive Plan; in 2004, the Company adopted the Build-A-Bear Workshop, Inc. 2004 Stock Incentive Plan, and in 2009, the Company amended and restated the Build-A-Bear Workshop, Inc. 2004 Stock Incentive Plan (collectively, the Plans).

Under the Plans, as amended, from January 3, 2009, up to 3,230,000 shares of common stock were reserved and may be granted to employees and nonemployees of the Company. The Plan allows for the grant of incentive stock options, nonqualified stock options, stock appreciation rights (SAR) and restricted stock. Options granted under the Plan expire no later than 10 years from the date of the grant. The exercise price of each incentive stock option shall not be less than 100% of the fair value of the stock subject to the option on the date the option is granted. The exercise price of all options shall be the fair market value on the date of the grant. The vesting provision of individual options is at the discretion of the compensation committee of the board of directors and generally ranges from one to four years. Each share of stock awarded pursuant to an option or subject to the exercised portion of a SAR reduces the number of shares available by one share. Each share of stock awarded pursuant to any other stock-based awards, including restricted stock grants, reduces the number of shares available by 1.27 shares.

(a) Stock Options

The following table is a summary of the balances and activity for the Plans related to stock options for the thirty-nine weeks ended October 2, 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding, January 2, 2010	805,347	$9.51		
Granted	390,088	6.62		
Exercised	28,484	0.87		
Forfeited	40,332	8.98		
Outstanding, October 2, 2010	1,126,619	$8.75	7.3	$382
Options Exercisable As Of:				
October 2, 2010	419,132	$13.59	4.5	$96

The Company generally issues new shares to satisfy option exercises.

The expense recorded related to options granted during the thirteen and thirty-nine weeks ended October 2, 2010 was determined using the Black-Scholes option pricing model and the provisions of Staff Accounting Bulletin (SAB) 107 and 110, which allow the use of a simplified method to estimate the expected term of “plain vanilla” options. The assumptions used in the option pricing model were: (a) dividend yield of 0%; (b) volatility of 65%; (c) risk-free interest rates ranging from 2.1% to 3.4%; and (d) an expected life of 6.25 years.

The expense recorded related to options granted during the thirteen and thirty-nine weeks ended October 3, 2009 was determined using the Black-Scholes option pricing model and the provisions of Staff Accounting Bulletin (SAB) 107 and 110, which allow the use of a simplified method to estimate the expected term of “plain vanilla” options. The assumptions used in the option pricing model were: (a) dividend yield of 0%; (b) volatility of 65%; (c) risk-free interest rates ranging from 2.3% to 3.1%; and (d) an expected life of 6.25 years.

(b) Restricted Stock

The following table is a summary of the balances and activity for the Plans related to restricted stock granted as compensation to employees and directors for the thirty-nine weeks ended October 2, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value per Award
Outstanding, January 2, 2010	1,450,313	$7.23
Granted	401,976	6.61
Vested	283,302	11.68
Canceled or expired	79,674	6.69
Outstanding, October 2, 2010	1,489,313	$6.25

The total fair value of shares vested during the thirty-nine weeks ended October 2, 2010 and October 3, 2009 was $1.9 million and $0.9 million, respectively.

8. Earnings per Share

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
Net loss	$ (1,378)	$ (4,763)	$ (8,176)	$ (11,557)
Weighted average number of common shares outstanding	18,426,860	18,876,697	18,755,941	18,844,009
Effect of dilutive securities:				
Stock options	-	-	-	-
Restricted stock	-	-	-	-
Weighted average number of common shares - dilutive	18,426,860	18,876,697	18,755,941	18,844,009
Loss per share:				
Basic	$ (0.07)	$ (0.25)	$ (0.44)	$ (0.61)
Diluted	$ (0.07)	$ (0.25)	$ (0.44)	$ (0.61)

In calculating diluted loss per share for the thirteen and thirty-nine weeks ended October 2, 2010, options to purchase 1,126,619 shares of common stock were outstanding as of the end of the period, but were not included in the computation of diluted loss per share due to their anti-dilutive effect. An additional 1,489,313 shares of restricted common stock were outstanding at the end of the period, but excluded from the calculation of diluted loss per share for the thirteen and thirty-nine weeks ended October 2, 2010 due to their anti-dilutive effect.

In calculating diluted loss per share for the thirteen and thirty-nine weeks ended October 3, 2009, options to purchase 814,253 shares of common stock were outstanding as of the end of the period, but were not included in the computation of diluted loss per share due to their anti-dilutive effect. An additional 1,493,243 shares of restricted common stock were outstanding at the end of the period, but excluded from the calculation of diluted loss per share for the thirteen and thirty-nine weeks ended October 3, 2009 due to their anti-dilutive effect.

9. Income Taxes

The Company accounts for uncertainty in income taxes in accordance with ASC Section 740-10. As of October 2, 2010 and January 2, 2010, the Company had approximately $0.5 million and $0.6 million, respectively, of unrecognized tax benefits. During the next twelve months, it is reasonably possible to reduce unrecognized tax benefits by $0.2 million either because the tax positions are sustained on audit, settlements are reached or the statute of limitations expired.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of October 2, 2010 and January 2, 2010, there was approximately $0.1 million of accrued interest related to uncertain tax positions.

10. Comprehensive Income or Loss

Comprehensive income (loss) for the thirteen and thirty-nine weeks ended October 2, 2010 was $1.6 million and $(10.1) million, respectively. Comprehensive (loss) for the thirteen weeks and thirty-nine weeks ended October 3, 2009 was $(6.4) million and $(6.2) million, respectively. The difference between comprehensive income or loss and net loss resulted from foreign currency translation adjustments.

11. 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, including Puerto Rico, Canada, the United Kingdom, Ireland, France and other retail delivery operations, including the Company's Web store and non-traditional store locations such as baseball ballparks. The international franchising segment includes the licensing activities of the Company's franchise agreements with store locations in Europe, outside of France, Asia, Australia and Africa. The commercial segment, formerly referred to as the licensing and entertainment segment, includes the Company's transactions with other business partners, mainly comprised of the licensing of the Company's intellectual property, including entertainment properties, for third party use and wholesale product sales. No changes to prior year licensing and entertainment segment amounts were required to conform to the current year commercial segment presentation. This segment has historically included an immaterial amount of wholesale transactions. In the 2010 third quarter, the wholesale revenue became significant. Accordingly, the name and description of the segment has been revised to more fully describe the activities of the segment. The operating segments have discrete sources of revenue, different capital structures and different cost structures. These operating segments represent the basis on which the Company's chief operating decision maker regularly evaluates the business in assessing performance, determining the allocation of resources and the pursuit of future growth opportunities. Accordingly, the Company has determined that each of its operating segments represent one reportable segment. The reportable segments follow the same accounting policies used for the Company's consolidated financial statements.

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

	Retail	International Franchising	Commercial	Total
Thirteen weeks ended October 2, 2010				
Net sales to external customers	$91,689	$767	$7,637	$100,093
Income (loss) before income taxes	(3,342)	411	1,029	(1,902)
Capital expenditures, net	3,724	74	-	3,798
Depreciation and amortization	6,530	179	-	6,709
Thirteen weeks ended October 3, 2009				
Net sales to external customers	$89,731	$945	$1,670	$92,346
Income (loss) before income taxes	(10,764)	515	839	(9,410)
Capital expenditures, net	2,805	133	-	2,938
Depreciation and amortization	6,906	119	-	7,025
Thirty-nine weeks ended October 2, 2010				
Net sales to external customers	$263,963	$2,112	$9,588	$275,663
Income (loss) before income taxes	(14,915)	1,005	2,222	(11,687)
Capital expenditures, net	10,072	136	-	10,208
Depreciation and amortization	19,938	400	-	20,338
Thirty-nine weeks ended October 3, 2009				
Net sales to external customers	$267,354	$2,153	$3,336	$272,843
Income (loss) before income taxes	(23,597)	1,042	1,590	(20,965)
Capital expenditures, net	6,422	229	-	6,651
Depreciation and amortization	20,773	341	-	21,114
Total Assets as of:				
October 2, 2010	$239,672	$2,817	$10,382	$252,871
October 3, 2009	$258,403	$3,222	$3,430	$265,055

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 October 2, 2010				
Net sales to external customers	$83,333	$15,993	$767	$100,093
Property and equipment, net	78,082	12,315	-	90,397
Thirteen weeks ended October 3, 2009				
Net sales to external customers	$73,830	$17,571	$945	$92,346
Property and equipment, net	94,239	13,377	-	107,616
Thirty-nine weeks ended October 2, 2010				
Net sales to external customers	$229,627	$43,924	$2,112	$275,663
Property and equipment, net	78,082	12,315	-	90,397
Thirty-nine weeks ended October 3, 2009				
Net sales to external customers	$224,838	$45,852	$2,153	$272,843
Property and equipment, net	94,239	13,377	-	107,616

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

12. Investment in Affiliate

The Company holds a minority interest of approximately 26% in Ridemakerz, LLC, which is accounted for under the equity method. Ridemakerz is an early-stage company that has developed an interactive retail concept that allows children and families to build and customize their own personalized cars. The Company also purchased a call option from a group of other Ridemakerz investors for $150,000 for 1.25 million Ridemakerz common units at an exercise price of $1.25 per unit. The call option was immediately exercisable and expires April 30, 2012. Simultaneously, the Company granted a put option to the same group of investors for 1.25 million common units at an exercise price of $0.50 per unit. The put option became exercisable on April 30, 2008 and expires on April 30, 2012. Under the current agreements, the Company could own up to approximately 27% of fully diluted equity in Ridemakerz. In the thirteen and thirty-nine weeks ended October 3, 2009, the Company recorded non-cash pre-tax charges of $4.6 million or $0.15 per diluted share and $5.1 million or $0.17 per diluted share, included in “Equity losses from investment in affiliate” in the Consolidated Statements of Operations.

As of October 2, 2010 and January 2, 2010, the book value of the Company’s investment in Ridemakerz was $-0-.

13. Closure of Friends 2B Made Concept

In September 2008, the Company announced plans to close its Friends 2B Made concept, a line of make-your-own dolls and related products. The closure plan affected the Company’s nine Friends 2B Made locations, all but one of which were inside or adjacent to a Build-A-Bear Workshop store, separate Friends 2B Made fixtures in approximately 50 Build-A-Bear Workshop stores, and the concept’s Web site. During the thirteen and thirty-nine weeks ended

October 3, 2009, the Company recorded pre-tax charges of $0.2 and $1.0 million, respectively, related to the closures, which consisted of lease termination charges and construction costs, and are included in “Store closing” expenses in the Consolidated Statements of Operations. As of October 3, 2009, all nine locations were closed and the fixtures had been removed from all Build-A-Bear Workshop stores.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. These risks and uncertainties include, without limitation, those detailed under the caption "Risk Factors" in our annual report on Form 10-K for the year ended January 2, 2010, as filed with the SEC, and the following: general economic conditions may continue to deteriorate, which could lead to disproportionately reduced consumer demand for our products, which represent relatively discretionary spending; customer traffic may continue to decrease in the shopping malls where we are located, on which we depend to attract guests to our stores; we may be unable to generate interest in and demand for our interactive retail experience, or to identify and respond to consumer preferences in a timely fashion; our marketing and 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 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; we may be unable to effectively manage the operations and growth of our Company-owned stores; we may be unable to effectively manage our international franchises or laws relating to those franchises may change; the availability and costs of our products could be adversely affected by risks associated with international manufacturing and trade, including foreign currency fluctuation; we are susceptible to disruption in our inventory flow due to our reliance on a few vendors; high petroleum products prices could increase our inventory transportation costs and adversely affect our profitability; we may be unable to operate our European Company-owned stores profitably; 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 at all or at the times or in the amounts we currently anticipate or the results of the share repurchase program may not be as beneficial as we currently anticipate; we may improperly obtain or be unable to protect information from our guests in violation of privacy or security laws or 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; our products could become subject to recalls or product liability claims that could adversely impact our financial performance and harm our reputation among consumers; we may lose key personnel, be unable to hire qualified additional personnel, or experience turnover of our management team; we may be unable 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; we may have disputes with, or 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; and we may be unable to recover amounts due to us from our affiliate, Ridemakerz, LLC. These risks, uncertainties and other factors may adversely affect our business, growth, financial condition or profitability, or subject us to potential liability, and cause our actual results, performance or achievements to be materially different from those expressed or implied by our forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

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

As of October 2, 2010, we operated 291 stores in the United States, Canada, and Puerto Rico, 56 stores in the United Kingdom, Ireland and France, and had 58 franchised stores operating internationally under the Build-A-Bear Workshop brand. In addition to our stores, we market our products and build our brand through our multiple websites, which simulates our interactive shopping experience, as well as non-traditional store locations in four Major League Baseball® ballparks, one location in a zoo and one location in a science center. Seasonal locations, such as ballparks, pop-up locations and zoos, are excluded from our store count.

On April 2, 2006, we acquired all of the outstanding shares of The Bear Factory Limited, a stuffed animal retailer in the United Kingdom, and Amsbra Limited, our former U.K. franchisee. The results of the acquisitions' operations have been included in the consolidated financial statements since that date. We are currently operating 36 of the acquired stores. Since 2006, our European operations have grown to 56 stores, including two in France. We have adopted internal best practices in the areas of merchandising, marketing, purchasing and store operations, across the acquired store base that resulted in improved sales and earnings from the acquisition.

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

- Company-owned retail stores located in the United States, Canada, Puerto Rico, the United Kingdom, Ireland, France, all non-traditional store locations and multiple e-commerce Web sites or “Web stores”;
- International stores operated under franchise agreements; and
- The commercial segment, formerly the licensing and entertainment segment, includes the Company’s transactions with other business partners, mainly comprised of the licensing of the Company’s intellectual property, including entertainment properties, for third party use and wholesale product sales.

Selected financial data attributable to each segment for the thirteen and thirty-nine weeks ended October 2, 2010 and October 3, 2009 are set forth in the notes to our condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

Store contribution, for our consolidated operations, was 11.7% for the thirty-nine weeks ended October 2, 2010 and 10.1% for the thirty-nine weeks ended October 3, 2009 and consolidated net loss as a percentage of total revenues was 3.0% for the thirty-nine weeks ended October 2, 2010 and 4.3% for the thirty-nine weeks ended October 3, 2009. See “Non-GAAP Financial Measures” for a definition of store contribution and a reconciliation of store contribution to net loss. The increase in our store contribution over the prior year was primarily due to improvements in gross margin that were driven by increases in merchandise margin, improved sales leverage on fixed store occupancy costs and decreases in marketing spend and store payroll as compared to the prior period.

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	October 2, 2010	October 3, 2009	October 2, 2010	October 3, 2009
North America	5.3 %	(16.0)%	(0.5)%	(18.2)%
Europe	(6.6)%	2.5 %	(4.7)%	5.3 %
Consolidated	3.1 %	(12.9)%	(1.2)%	(15.0)%

We believe our comparable store sales were impacted by the following factors:

- We believe that our improved integration of product, marketing and store operations positively impacted our North American comparable store sales in the third quarter. With this focused message, we believe that we were able to capitalize on mall traffic with a 4.6% increase in the number of transactions and a slight increase in average transaction value, and
- We believe that the economic recession and associated decline in consumer confidence continue to impact consumer spending and our comparable store sales, particularly in Europe.

We are addressing comparable store sales with the following key initiatives:

- We are improving our product by enhancing the size of our new product launches and the design and value of our animals and related products;

- We are executing a fully integrated product, marketing and store operations strategy by having one product statement supported by one focused message and one strong promotion that updates regularly. We are using powerful store visuals to drive traffic and integrated and clean marketing to drive conversion;

- We are focused on increasing engagement in our online virtual world for children, buildabearville.com, to drive brand interaction and traffic to our stores; and

- We are adding complimentary experiential products to our assortment that reinforce our brand essence.

Expansion and Growth Potential

Retail Stores:

The table below sets forth the number of Build-A-Bear Workshop Company-owned stores in the United States, Canada, Puerto Rico (collectively, North America), the United Kingdom, Ireland, and France (collectively, Europe) for the periods presented:

	Thirty-nine weeks ended	
	October 2, 2010	October 3, 2009
Beginning of period	345	346
Opened	4	1
Closed	(2)	(2)
End of period	347	345

During fiscal 2010, we opened one Build-A-Bear Workshop store in North America and three new stores in Europe. We have plans to close a small number of stores and open no permanent locations in the 2010 fourth quarter. We believe there is a market potential for at least 350 Build-A-Bear Workshop stores in North America, and approximately 70 to 75 stores in the United Kingdom and Ireland.

In the fiscal 2008 third quarter, we announced plans to close the Friends 2B Made concept, our proprietary line of make-your-own dolls and related products. All remaining closures were completed during the fiscal 2009 third quarter. Other than the one stand-alone store, these Friends 2B Made stores were not included in our store count, but rather were considered expansions of existing Build-A-Bear Workshop stores.

Non-Traditional Store Locations:

In fiscal 2004, we began offering merchandise in seasonal, event-based locations such as Major League Baseball® ballparks. We expect to expand our future presence at select seasonal, event-based locations contingent on their availability. As of October 2, 2010, we had a total of four ballpark locations, one store within a zoo and one store within a science center. Seasonal locations, such as ballparks, pop-up locations and zoos, are excluded from our store count.

We plan to open 11 pop-up locations in the 2010 fourth quarter. Pop-up stores are temporary locations that typically have an initial lease term of six to 15 months. These stores will not be included in our store count.

International Franchise Revenue:

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

	Thirty-nine weeks ended	
	October 2, 2010	October 3, 2009
Beginning of period	65	62
Opened	5	6

Closed	(12)	(7)
End of period	58	61

As of October 2, 2010, we had master franchise agreements, which typically grant franchise rights for a particular country or countries, covering 15 countries. We anticipate signing additional master franchise agreements in the future. We expect our franchisees to open approximately three to five stores in the fourth quarter of fiscal 2010. We believe there is a market potential for approximately 300 franchised stores outside of the United States, Canada, Puerto Rico, the United Kingdom, Ireland and France.

Results of Operations

The following table sets forth, for the periods indicated, selected statement of income data expressed as a percentage of total revenues, except where otherwise indicated. Percentages may not total due to immaterial rounding:

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

	Thirteen weeks ended				Thirty-nine weeks ended			
	October 2, 2010		October 3, 2009		October 2, 2010		October 3, 2009	
Revenues:								
Net retail sales	91.6	%	97.2	%	95.8	%	98.0	%
Licensing revenue	7.6		1.8		3.5		1.2	
Franchise fees	0.8		1.0		0.8		0.8	
Total revenues	100.0		100.0		100.0		100.0	
Costs and expenses:								
Cost of merchandise sold	62.7		62.4		62.4		63.8	
Selling, general and administrative	39.1		42.5		41.7		41.7	
Store preopening	0.3		0.1		0.1		0.0	
Store closing	-		0.3		-		0.4	
Equity losses from investment in affiliate	-		5.0		-		1.9	
Interest expense (income), net	(0.1	)	(0.0	)	(0.1	)	(0.0	)
Total costs and expenses	101.9		110.2		104.2		107.7	
Loss before income taxes	(1.9	)	(10.2	)	(4.2	)	(7.7	)
Income tax benefit	(0.5	)	(5.0	)	(1.3	)	(3.4	)
Net loss	(1.4	)	(5.2	)	(3.0	)	(4.2	)
Retail Gross Margin % (1)	38.6	%	36.5	%	37.4	%	35.4	%

(1) Retail gross margin represents net retail sales less cost of retail merchandise sold, which excludes cost of wholesale merchandise sold. Retail gross margin was $ 35.4 million and $98.8 million for the thirteen and thirty-nine weeks ended October 2, 2010, respectively, and $32.7 million and $94.7 million for the thirteen and thirty-nine weeks ended October 3, 2009, respectively. Retail gross margin percentage represents retail gross margin divided by net retail sales.

Thirteen weeks ended October 2, 2010 compared to thirteen weeks ended October 3, 2009

Total revenues. Net retail sales increased to $91.7 million for the thirteen weeks ended October 2, 2010 from $89.7 million for the thirteen weeks ended October 3, 2009, an increase of $2.0 million, or 2.2%. This increase was primarily attributable to a $2.6 million increase in comparable store sales, a $0.8 million increase in other non-store locations and a $0.4 million increase in sales from new stores. These increases were partially offset by a $0.7 million negative impact of foreign currency translation, $0.6 million in changes in deferred revenue and $0.5 million decreased sales from non-comparable locations.

We believe our comparable store sales were impacted by the following factors:

- We believe that our improved integration of product, marketing and store operations positively impacted our North American comparable store sales in the third quarter. With this focused message, we believe that we were able to capitalize on mall traffic with a 4.6% increase in the number of transactions and a slight increase in average transaction value, and

- We believe that the economic recession and associated decline in consumer confidence continue to impact consumer spending and our comparable store sales, particularly in Europe.

Commercial revenue, formerly referred to as licensing revenue, increased to $7.6 million for the thirteen weeks ended October 2, 2010 from $1.7 million for the thirteen weeks ended October 3, 2009, an increase of $6.0 million. This increase was primarily related to a single $5.8 million wholesale transaction with no associated gross margin. We also increased revenues through our collaboration with Michael’s Stores and Borders. Revenue from franchise fees decreased to $0.8 million for the thirteen weeks ended October 2, 2010 from $0.9 million for the thirteen weeks ended October 3, 2009, a decrease of $0.1 million. This decrease was primarily due to the decline in the number of franchised locations and in franchisee store sales reflecting the global economic slowdown.

Gross margin. Total gross margin increased to $37.4 million for the thirteen weeks ended October 2, 2010 from $34.7 million for the thirteen weeks ended October 3, 2009, an increase of $2.7 million, or 7.7%. Retail gross margin increased to $35.4 million for the thirteen weeks ended October 2, 2010 from $32.7 million for the thirteen weeks ended October 3, 2009, an increase of $2.7 million, or 8.3%. As a percentage of net retail sales, retail gross margin increased to 38.6% for the thirteen weeks ended October 2, 2010 from 36.5% for the thirteen weeks ended October 3, 2009, an increase of 210 basis points as a percentage of net retail sales (bps). This increase resulted primarily from improved sales leverage on store occupancy costs and a slight improvement in merchandise margin.

Selling, general and administrative. Selling, general and administrative expenses decreased to $39.1 million for the thirteen weeks ended October 2, 2010 from $39.3 million for the thirteen weeks ended October 3, 2009. As a percentage of total revenues, excluding the single wholesale transaction, selling, general and administrative expenses decreased to 41.5% for the thirteen weeks ended October 2, 2010 as compared to 42.5% for the thirteen weeks ended October 3, 2009, a decrease of 100 bps. The decrease in selling, general and administrative expenses as a percent of revenue was primarily due to leverage on store salaries and other fixed components of overhead costs as well as a shift in the timing of certain marketing programs. These improvements were partially offset by charges related to the decision to close a small number of stores within the fiscal year.

Store preopening. Store preopening expense was $0.3 for the thirteen weeks ended October 2, 2010 as compared to $0.1 million for the thirteen weeks ended October 3, 2009. The increase in store preopening for the period was the result of three store openings in the 2010 third quarter as compared to one store opening in the same period last year. Additionally, we plan to open 11 pop-up stores in the 2010 fourth quarter. Preopening expenses include expenses for stores that opened in the current period as well as expenses incurred for stores that will open in future periods.

Store closing. Store closing expense was $0.3 million for the thirteen weeks ended October 3, 2009 and consisted primarily of inventory write-offs and construction costs incurred to reformat locations for return to the landlord related to the closure of the Friends 2B Made concept.

Equity losses from investment in affiliate. Equity losses from investment in affiliate was $4.6 million for the thirteen weeks ended October 3, 2009 and is the result of the allocation of losses related to our investment in Ridemakerz.

Interest expense (income), net. Interest income, net of interest expense, was $83,000 for the thirteen weeks ended October 2, 2010 as compared to $44,000 for the thirteen weeks ended October 3, 2009.

Provision for income taxes. The income tax benefit was $0.5 million for the thirteen weeks ended October 2, 2010 as compared to $4.6 million for the thirteen weeks ended October 3, 2009. The effective tax rate was 27.5% for the thirteen weeks ended October 2, 2010 compared to 49.4% for the thirteen weeks ended October 3, 2009. The decrease in the effective tax rate was primarily attributable to the impact of valuation allowances recorded for losses incurred in certain tax jurisdictions and lower tax rates in foreign jurisdictions.

Thirty-nine weeks ended October 2, 2010 compared to thirty-nine weeks ended October 3, 2009

Total revenues. Net retail sales decreased to $264.0 million for the thirty-nine weeks ended October 2, 2010 from $267.4 million for the thirty-nine weeks ended October 3, 2009, a decrease of $3.4 million, or 1.3%. This decline was primarily attributable to a $3.1 million decline in comparable store sales, a $1.5 million change in deferred revenue and a $1.3 million decrease in sales from non-comparable locations. These declines were partially offset by a $1.0 million positive impact of foreign currency translation, $0.9 million increase in sales from new stores and $0.6 million increase in other non-store locations.

We believe our comparable store sales were impacted as the economic recession and associated decline in consumer confidence continue to impact consumer spending, particularly in Europe.

Commercial revenue, formerly referred to as licensing revenue, increased to $9.6 million for the thirty-nine weeks ended October 2, 2010 from $3.3 million for the thirty-nine weeks ended October 3, 2009, an increase of $6.3 million. This increase was primarily related to a single $5.8 million wholesale transaction with no associated gross margin. We also increased revenues through our collaboration with Michael’s Stores and Borders. Revenue from franchise fees decreased to $2.1 million for the thirty-nine weeks ended October 2, 2010 from $2.2 million for the thirty-nine weeks ended October 3, 2009, a decrease of $0.1 million. This decrease was primarily due to the decline in the number of franchised locations and in franchisee store sales reflecting the global economic slowdown.

Gross margin. Total gross margin increased to $103.5 million for the thirty-nine weeks ended October 2, 2010 from $98.8 million for the thirty-nine weeks ended October 3, 2009, an increase of $4.7 million, or 4.7%. Retail gross margin increased to $98.8 million for the thirty-nine weeks ended October 2, 2010 from $94.7 million for the thirty-nine weeks ended October 3, 2009, an increase of $4.1 million, or 4.3%. As a percentage of net retail sales, retail gross margin increased to 37.4% for the thirty-nine weeks ended October 2, 2010 from 35.4% for the thirty-nine weeks ended October 3, 2009, an increase of 200 bps. This increase resulted primarily from a 90 bps improvement in merchandise margin, 70 bps improved sales leverage on store occupancy costs and a 40 bps improvement in leverage on buying and distribution costs.

Selling, general and administrative. Selling, general and administrative expenses were $115.0 million for the thirty-nine weeks ended October 2, 2010 as compared to $113.7 million for the thirty-nine weeks ended October 3, 2009, an increase of $1.4 million, or 1.2%. As a percentage of total revenues, excluding the single wholesale transaction, selling, general and administrative expenses increased to 43.6% for the thirty-nine weeks ended October 2, 2010 as compared to 41.7% for the thirty-nine weeks ended October 3, 2009, an increase of 190 bps. Both the dollar increase and the increase as a percent of revenue were primarily due to increases in central office payroll and depreciation, charges related to the decision to close a small number of stores within the fiscal year as well as having three more stores in operation as compared to the same period last year. These increases were partially offset by reductions in marketing expenses.

Store preopening. Store preopening expense was $0.3 million for the thirty-nine weeks ended October 2, 2010 as compared to $0.1 million for the thirty-nine weeks ended October 3, 2009. The increase in store preopening for the period was the result of four store openings in fiscal 2010 as compared to one store opening in the last fiscal year. Additionally, we plan to open 11 pop-up stores in the 2010 fourth quarter. Preopening expenses include expenses for stores that opened in the current period as well as expenses incurred for stores that will open in future periods.

Store closing. Store closing expense was $1.0 million for the thirty-nine weeks ended October 3, 2009 and consisted primarily of lease termination charges, inventory write-offs and construction costs incurred to reformat locations for return to the landlord related to the closure of the Friends 2B Made concept.

Equity losses from investment in affiliate. Equity losses from investment in affiliate was $5.1 million for the thirty-nine weeks ended October 3, 2009 and is the result of the allocation of losses related to our investment in Ridemakerz.

Interest expense (income), net. Interest income, net of interest expense, was $0.2 million for the thirty-nine weeks ended October 2, 2010 as compared to $0.1 million for the thirty-nine weeks ended October 3, 2009.

Provision for income taxes. The income tax benefit was $3.5 million for the thirty-nine weeks ended October 2, 2010 as compared to $9.4 million for the thirty-nine weeks ended October 3, 2009. The effective tax rate was 30.0% for the thirty-nine weeks ended October 2, 2010 compared to 44.9% for the thirty-nine weeks ended October 3, 2009. The decrease in the effective tax rate was primarily attributable to the impact of valuation allowances recorded for losses incurred in certain tax jurisdictions and lower tax rates in foreign jurisdictions.

Non-GAAP Financial Measures

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

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

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

	Thirty-nine weeks ended October 2, 2010			Thirty-nine weeks ended October 3, 2009		
	North America	Europe	Total	North America	Europe	Total
Net loss	$(6,417)	$(1,759)	$(8,176)	$(10,854)	$(703)	$(11,557)
Income tax expense (benefit)	(3,531)	20	(3,511)	(9,530)	122	(9,408)
Interest expense (income)	(65)	(126)	(191)	(54)	(38)	(92)
Store depreciation, amortization and impairment (1)	11,848	2,082	13,930	13,243	1,975	15,218
Store preopening expense	162	181	343	90	-	90
Store closing expense (2)	-	-	-	981	-	981
Equity losses from investment in affiliate (3)	-	-	-	5,125	-	5,125
General and administrative expense (4)	30,184	2,956	33,140	28,397	2,440	30,837
Franchising and commercial contribution (5)	(3,399)	-	(3,399)	(2,972)	-	(2,972)
Non-store activity contribution (6)	(1,807)	(472)	(2,279)	(1,846)	(322)	(2,168)
Store contribution	$26,975	$2,882	$29,857	$22,580	$3,474	$26,054
Total revenues from external customers	$231,739	$43,924	$275,663	$226,991	$45,852	$272,843
Franchising and commercial revenues	(11,700)	-	(11,700)	(5,489)	-	(5,489)
Revenues from non-store activities (6)	(7,926)	(1,273)	(9,199)	(8,179)	(1,213)	(9,392)
Store location net retail sales	$212,113	$42,651	$254,764	$213,323	$44,639	$257,962

Store contribution as a percentage of store location net retail sales	12.7	%	6.8	%	11.7	%	10.6	%	7.8	%	10.1	%
Total net loss as a percentage of total revenues	-2.8	%	-4.0	%	-3.0	%	-4.8	%	-1.5	%	-4.2	%

(1) Store depreciation, amortization and impairment includes depreciation and amortization of all capitalized assets in store locations, including leasehold improvements, furniture and fixtures, and computer hardware and software and store asset impairment charges, included in cost of merchandise sold.
(2) Store closing expense represents asset impairment and other charges related to the closure of the Friends 2B Made concept.
(3) Equity losses from investment in affiliate represent the Company's portion of losses of Ridemakerz.
(4) General and administrative expenses consist of non-store, central office general and administrative functions such as management payroll and related benefits, travel, information systems, accounting, purchasing and legal costs as well as the depreciation and amortization of central office leasehold improvements, furniture and fixtures, computer hardware and software, including assets related to the virtual world, and intellectual property. General and administrative expenses also include a central office marketing department, primarily payroll and related benefits expense, but exclude advertising expenses, such as direct mail catalogs and television advertising, which are included in store contribution.
(5) Franchising and commercial contribution includes franchising and commercial revenues and all expenses attributable to the international franchising and commercial segments other than depreciation, amortization and interest expense/income. Depreciation and amortization related to the franchising and commercial segments is included in the general and administrative expense caption. Interest expense/income related to the franchising and commercial segments is included in the interest expense (income) caption.
(6) Non-store activities include our webstores, and seasonal and event-based locations as well as intercompany transfer pricing charges.

Seasonality and Quarterly Results

Our operating results for one period may not be indicative of results for other periods, and may fluctuate significantly because of a variety of factors, including: (1) 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 appearances and other public relations events; (6) the timing of our new store openings 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 new store openings may result in fluctuations in quarterly results as a result of the revenues and expenses associated with each new store location. We typically incur most preopening costs for a new store in the three months immediately preceding the store's opening. We expect our growth, operating results and profitability to depend in some degree on our ability to increase our number of stores.

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

Liquidity and Capital Resources

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

Operating Activities. Cash used in operating activities was $17.3 million for the thirty-nine weeks ended October 2, 2010 as compared with cash used in operating activities of $10.9 million for the thirty-nine weeks ended October 3, 2009, or an increase of $6.4 million. Generally, changes in cash from operating activities are driven by changes in net income or loss and changes in operating assets and liabilities. In 2010, the use of cash was driven primarily by the net loss for the first nine months of 2010, the decrease in accrued expenses and other liabilities, specifically sales taxes and gift cards, and increased inventory. The increase in cash used for inventory relates primarily to purchases of incremental inventory necessary to launch new proprietary and non-proprietary product lines. Additional increases resulted from earlier receipt of holiday product, inventory for pop-up store openings and increased in-transit inventory due to longer required lead times. In 2009, the use of cash in operating activities was driven primarily by the net loss for the first nine months of 2009, which was primarily due to a decline in sales in the same period. In 2009, the change in operating assets and liabilities was driven by decreases in accounts payable and accrued expenses and offsetting decreases in inventory, primarily attributable to overall cost reductions as compared to the year ago period, and an increase in prepaid expenses, specifically income taxes.

Investing Activities. Cash used in investing activities was $10.2 million for the thirty-nine weeks ended October 2, 2010 as compared to $7.2 million for the thirty-nine weeks ended October 3, 2009. Cash used in investing activities during the thirty-nine weeks ended October 2, 2010 primarily relates to investments in software and equipment upgrades to the Company's e-commerce platform and new store construction costs. Cash used in investing activities during the thirty-nine weeks ended October 3, 2009 primarily relates to investments in central office information technology systems and the acquisition of trademarks and other intellectual property.

Financing Activities. Cash used in financing activities was $7.2 million in the thirty-nine weeks ended October 2, 2010 which consisted primarily of cash used for repurchases of the Company's common stock. We had no cash flows from financing activities in the thirty-nine weeks ended October 3, 2009. No borrowings were made under our line of credit in either the thirty-nine weeks ended October 2, 2010 or October 3, 2009.

Capital Resources. As of October 2, 2010, we had a consolidated cash balance of $24.7 million, nearly 60% of which was held in the United Kingdom. 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 October 28, 2009. The bank line continues to provide availability of $40 million for the first half of the fiscal year and a seasonal overline of $50 million. The seasonal overline is in effect from July 1 to December 31 each year. Borrowings under the credit agreement are secured by our assets and a pledge of 65% of our ownership interest in our foreign subsidiaries. The credit agreement expires on December 31, 2011 and contains various restrictions on indebtedness, liens, guarantees, redemptions, mergers, acquisitions or sale of assets, loans, transactions with affiliates, and investments. It also prohibits us from declaring dividends without the bank's prior consent, unless such payment of dividends would not violate any terms of the credit agreement. Borrowings bear interest at LIBOR plus 2.05%. Financial covenants include maintaining a minimum tangible net worth, maintaining a minimum fixed charge cover ratio (as defined in the credit agreement) and not exceeding a maximum funded debt to earnings before interest, depreciation and amortization ratio. As of October 2, 2010 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 $48.9 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. We may also be required to make deposits and rent guarantees to secure new leases as we expand. Real estate taxes also change according to government time schedules to reflect current market rental rates for the locations we lease. Rents are charged quarterly and paid in advance.

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

In fiscal 2010, we expect to spend approximately $15 million on capital expenditures. Capital spending through the thirty-nine weeks ended October 2, 2010 totaled $10.2 million, on track with our full year plans. Capital spending in fiscal 2010 primarily relates to investments in software and equipment upgrades to the Company’s e-commerce platform and new store construction costs.

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, 2011.

On February 20, 2007, we announced a $25 million share repurchase program of our outstanding common stock over the following twelve months. The program was authorized by our board of directors. On March 10, 2008, we announced an expansion of our share repurchase program to $50 million for an additional twelve months. On March 3, 2009, we announced a twelve month extension of our share repurchase program. On March 3, 2010, we announced that our share repurchase program had been extended to March 31, 2011. 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 will be subsequently retired.

From the inception of our share repurchase program in 2007 through November 8, 2010, we have repurchased approximately 3.0 million shares of our common stock at an average price of $8.78 per share for an aggregate amount of $26.3 million.

Off-Balance Sheet Arrangements

We hold a minority interest in Ridemakerz, LLC, which is accounted for under the equity method. We purchased a call option from a group of other Ridemakerz investors for $150,000 for 1.25 million Ridemakerz common units at an exercise price of $1.25 per unit. The call option was immediately exercisable and expires April 30, 2012. Simultaneously, we granted a put option to the same group of investors for 1.25 million common units at an exercise price of $0.50 per unit. The put option was exercisable on April 30, 2008 and expires on April 30, 2012. As of October 2, 2010, the book value of our investment in Ridemakerz had been reduced to zero. We still retained an ownership interest of approximately 26%. Under the current agreements, we could own up to approximately 27% of fully diluted equity in Ridemakerz.

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 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 SEC on March 18, 2010, which includes audited consolidated financial statements for our 2009, 2008 and 2007 fiscal years. There have been no material changes to the critical accounting policies and estimates disclosed in the 2009 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 LIBOR plus 2.05%. We had no borrowings outstanding during the first nine months of fiscal 2010. Accordingly, a 100 basis point change in interest rates would result in no material change to our annual interest expense. The second component of interest rate risk involves the short term investment of excess cash in short term, investment grade interest-bearing securities. These investments are considered to be cash equivalents and are shown that way on our balance sheet. If there are changes in interest rates, those changes would affect the investment income we earn on these investments and, therefore, impact our cash flows and results of operations.

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

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

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

Item 4. Controls and Procedures.

Disclosure Controls and Procedures: The Company’s management, with the participation of the Company’s Chief Executive Bear and Chief Operations and Financial Bear, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this report. Based on such evaluation, the Company’s management, including the Chief Executive Bear and Chief Operations and Financial Bear, have concluded that the Company’s disclosure controls and procedures were effective as of October 2, 2010, the end of the period covered by this quarterly report.

It should be noted that our management, including the Chief Executive Bear and the Chief Operations and Financial Bear, does not expect that the Company’s disclosure controls and procedures or internal controls will prevent all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute,

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

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

PART II – OTHER INFORMATION

Item 1A. Risk Factors

There have been no changes to our Risk Factors as disclosed in our Annual Report on Form 10-K for the year ended January 2, 2010 as filed with the SEC on March 18, 2010.

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
Jul. 4, 2010 – Jul. 31, 2010	-	$-	-	$27,701,610
Aug 1, 2010 – Aug. 28, 2010	442,501	$6.02	442,501	$25,037,959
Aug. 29 2010 – Oct. 2, 2010	237,431	$5.58	237,201	$23,714,009
Total	679,932	$5.87	679,702	$23,714,009

(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 as the average of the high and low trading price of our common stock on the date the relevant transaction occurs.

(2) On March 3, 2010, we announced the further extension of our $50 million share repurchase program of our outstanding common stock until March 31, 2011. 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 8, 2004)
3.2	Amended and Restated Bylaws (incorporated by reference from Exhibit 3.2 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
4.1	Specimen Stock Certificate (incorporated by reference from Exhibit 4.1 to Amendment No. 3 to our Registration Statement on Form S-1, filed on October 1, 2004, Registration No. 333-118142)
4.2	Stock Purchase Agreement by and among the Registrant, Catterton Partners IV, L.P., Catterton Partners IV Offshore, L.P. and Catterton Partners IV Special Purpose, L.P. and the Purchasers named therein dated as of April 3, 2000 (incorporated by reference from Exhibit 4.2 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
4.3	Stock Purchase Agreement by and among the Registrant and the other Purchasers named therein dated as of September 21, 2001 (incorporated by reference from Exhibit 4.3 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
4.4	Amended and Restated Registration Rights Agreement, dated September 21, 2001 by and among Registrant and certain stockholders named therein (incorporated by reference from Exhibit 4.5 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
31.1	Rule 13a-14(a)/15d-14(a) certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the Chief Executive Bear)
31.2	Rule 13a-14(a)/15d-14(a) certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the Chief Financial Bear)
32.1	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the Chief Executive Bear)
32.2	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the Chief Financial Bear)

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 11, 2010

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

By:	/s/ Maxine Clark Maxine Clark Chairman of the Board and Chief Executive Bear
By:	/s/ Tina Klocke Tina Klocke Chief Operations and Financial Bear, Treasurer and Secretary