

**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 March 29, 2008

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  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of May 1, 2008, there were 19,626,526 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)

	March 29, 2008	December 29, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 41,176	\$ 66,261
Inventories	49,997	48,638
Receivables	5,995	7,068
Prepaid expenses and other current assets	15,998	14,624
Deferred tax assets	3,905	3,606
Total current assets	<u>117,071</u>	<u>140,197</u>
Property and equipment, net	136,856	139,841
Goodwill	42,934	42,840
Other intangible assets, net	4,217	4,016
Investment in affiliate	4,502	4,307
Other assets, net	7,921	8,330
Total Assets	<u>\$313,501</u>	<u>\$ 339,531</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 30,679	\$ 45,044
Accrued expenses	17,356	15,439
Gift cards and customer deposits	24,596	34,567
Deferred revenue	8,875	8,708
Total current liabilities	<u>81,506</u>	<u>103,758</u>
Deferred franchise revenue	2,162	2,511
Deferred rent	37,638	38,046
Other liabilities	1,564	1,608
Stockholders' equity:		
Preferred stock, par value \$0.01, Shares authorized: 15,000,000; No shares issued or outstanding at March 29, 2008 and December 29, 2007	—	—
Common stock, par value \$0.01, Shares authorized: 50,000,000; Issued and outstanding: 20,010,666 and 20,676,357 shares, respectively	200	207
Additional paid-in capital	79,715	88,388
Accumulated other comprehensive income	5,624	6,314
Retained earnings	105,092	98,699
Total stockholders' equity	<u>190,631</u>	<u>193,608</u>
Total Liabilities and Stockholders' Equity	<u>\$313,501</u>	<u>\$ 339,531</u>

See accompanying notes to condensed consolidated financial statements.

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

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

	Thirteen weeks ended	
	March 29, 2008	March 31, 2007
<b>Revenues:</b>		
Net retail sales	\$ 121,854	\$ 115,883
Franchise fees	1,249	695
Licensing revenue	704	236
Total revenues	123,807	116,814
<b>Costs and expenses:</b>		
Cost of merchandise sold	68,739	62,246
Selling, general and administrative	44,827	41,438
Store preopening	553	688
Interest expense (income), net	(460)	(545)
Total costs and expenses	113,659	103,827
Income before income taxes	10,148	12,987
Income tax expense	3,755	4,922
Net income	\$ 6,393	\$ 8,065
<b>Earnings per common share:</b>		
Basic	\$ 0.32	\$ 0.40
Diluted	\$ 0.32	\$ 0.39
<b>Shares used in computing common per share amounts:</b>		
Basic	20,150,325	20,281,820
Diluted	20,244,984	20,525,347

See accompanying notes to condensed consolidated financial statements.

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

	Thirteen weeks ended	
	March 29, 2008	March 31, 2007
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,393	\$ 8,065
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>		
Depreciation and amortization	7,002	6,260
Deferred taxes	(16)	39
Tax benefit from stock option exercises	—	(159)
Loss on disposal of property and equipment	17	10
Stock-based compensation	900	587
<b>Change in assets and liabilities:</b>		
Inventories	(1,339)	4,057
Receivables	1,072	1,358
Prepaid expenses and other assets	(1,346)	(2,672)
Accounts payable	(13,272)	(8,704)
Accrued expenses and other liabilities	(9,047)	(9,808)
Net cash used in operating activities	<u>(9,636)</u>	<u>(967)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(5,453)	(4,944)
Purchases of other assets and other intangible assets	(259)	(431)
Investment in affiliate	(195)	(213)
Net cash used in investing activities	<u>(5,907)</u>	<u>(5,588)</u>
<b>Cash flows from financing activities:</b>		
Exercise of employee stock options and employee stock purchases	—	347
Purchases of Company's common stock	(8,290)	(4,670)
Tax benefit from stock option exercises	—	159
Net cash used in financing activities	<u>(8,290)</u>	<u>(4,164)</u>
Effect of exchange rates on cash	(1,252)	(15)
Net decrease in cash and cash equivalents	(25,085)	(10,734)
Cash and cash equivalents, beginning of period	66,261	53,109
Cash and cash equivalents, end of period	<u>\$ 41,176</u>	<u>\$ 42,375</u>
<b>Supplemental disclosure of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Income taxes	\$ 2,817	\$ 8,106
<b>Noncash Transactions:</b>		
Return of common stock in lieu of tax withholdings and option exercises	\$ 299	\$ 494

See accompanying notes to condensed consolidated financial statements.

## Notes to Consolidated Financial Statements

### 1. Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared by Build-A-Bear Workshop, Inc. and its subsidiaries (collectively, the "Company") pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet of the Company as of December 29, 2007 was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and reflect all adjustments which are, in the opinion of management, necessary to summarize fairly the financial position of the Company and the results of the Company's operations and cash flows for the periods presented. All of these adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Because of the seasonal nature of the Company's operations, results of operations of any single reporting period should not be considered as indicative of results for a full year. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended December 29, 2007 included in the Company's annual report on Form 10-K filed with the SEC on March 13, 2008.

Certain reclassifications were made to prior years' financial statements to be consistent with the current presentation.

### 2. Goodwill

Goodwill is accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and is reported as a component of the Company's retail segment. The following table summarizes the changes in goodwill for the thirteen weeks ended March 29, 2008 (in thousands):

Balance as of December 29, 2007	\$42,840
Effect of foreign currency translation	94
Balance as of March 29, 2008	<u>\$42,934</u>

Goodwill is not subject to amortization and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. This testing requires comparison of carrying values to fair values, and when appropriate, the carrying values of impaired assets is reduced to fair value. Goodwill will be tested for impairment no later than January 3, 2009.

### 3. Stock-based Compensation

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payment*, using the modified prospective method. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining service period of awards that had been included in pro forma disclosures in prior periods. In addition, the Company uses the straight-line expense attribution method for all stock-based compensation awards with graded vesting. On March 20, 2008, the Company entered into long-term incentive plan agreements with certain key executives tied to fiscal year 2008 financial performance. Upon achievement of the performance goals, restricted shares are awarded to the employee but are still subject to restriction for the remainder of the vesting period. Compensation expense is recognized over the performance period plus the vesting period. The awards are treated as a liability award during the performance period and as an equity award once the performance restricted shares are awarded. Compensation expense related to these awards was recognized in the 2008 fiscal first quarter, but no shares are included in the dilutive shares, as the performance conditions had not been met at March 29, 2008.

For the thirteen weeks ended March 29, 2008, selling, general and administrative expense includes \$0.9 million (\$0.6 million after tax) of stock-based compensation expense. For the thirteen weeks ended March 31, 2007, selling, general and administrative expenses includes \$0.6 million (\$0.4 million after tax) of stock-based compensation expense.

As of March 29, 2008, there was \$10.1 million of total unrecognized compensation expense related to nonvested restricted stock awards, including performance-based awards, which is expected to be recognized over a weighted-average period of 1.99 years.

### 4. Stock Incentive Plans

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

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

#### (a) Stock Options

The following table is a summary of the balances and activity for the Plans related to stock options for the thirteen weeks ended March 29, 2008:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding, December 29, 2007	420,881	\$ 16.25		
Granted	—	—		
Exercised	—	—		
Forfeited	10,490	30.47		
Outstanding, March 29, 2008	<u>410,391</u>	<u>\$ 15.89</u>	<u>4.5</u>	<u>\$ 458</u>
<b>Options Exercisable As Of:</b>				
March 29, 2008	<u>410,391</u>	<u>\$ 15.89</u>	<u>4.5</u>	<u>\$ 458</u>

No options were exercised in the thirteen weeks ended March 29, 2008. The total intrinsic value of options exercised in the thirteen weeks ended March 31, 2007 was approximately \$0.7 million. The Company generally issues new shares to satisfy option exercises.

#### (b) Restricted Stock

The following table is a summary of the balances and activity for the Plans related to restricted stock granted as compensation to employees and directors for the thirteen weeks ended March 29, 2008:

	Number of Shares	Weighted Average Grant Date Fair Value per Award
Outstanding, December 29, 2007	378,950	\$ 27.77
Granted	422,010	8.91
Vested	91,390	28.86
Canceled or expired	7,863	28.28
Outstanding, March 29, 2008	<u>701,707</u>	<u>\$ 16.28</u>

The total fair value of shares vested during the thirteen weeks ended March 29, 2008 and March 31, 2007 was \$0.9 million and \$1.4 million, respectively.

#### (c) Associate Stock Purchase Plan

In October 2004, the Company adopted an Associate Stock Purchase Plan (ASPP). Under the ASPP, substantially all full-time employees are given the right to purchase shares of the Company's common stock, subject to certain limitations, at 85% of the lesser of the fair market value on the purchase date or the beginning of each purchase period, or calendar quarter. Up to 1,000,000 shares of the Company's common stock are available for issuance under the ASPP. The employees of the Company purchased 12,566 shares at \$7.68 per share through the ASPP during the 2008 first calendar quarter, which ended March 31, 2008. The purchase occurred in the Company's fiscal 2008 second quarter. The expense recorded related to the ASPP during the thirteen weeks ended March 29, 2008 was determined using the Black-Scholes option pricing model and the provisions of FASB Technical Bulletin 97-1, *Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option* (FTB 97-1), as amended by SFAS 123R. The assumptions used in the option pricing model for the thirteen ended March 29, 2008 were: (a) dividend yield of 0%; (b) volatility of 45%; (c) risk-free interest rate of 1.3%; and (d) an expected life of 0.25 years.

## 5. Earnings per Share

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

	Thirteen weeks ended	
	March 29, 2008	March 31, 2007
Net income	\$ 6,393	\$ 8,065
Weighted average number of common shares outstanding	20,150,325	20,281,820
Effect of dilutive securities:		
Stock options	72,157	177,347
Restricted stock	22,502	66,180
Weighted average number of common shares outstanding—dilutive	20,244,984	20,525,347
Earnings per share:		
Basic:	\$ 0.32	\$ 0.40
Diluted	\$ 0.32	\$ 0.39

In calculating diluted earnings per share for the thirteen weeks ended March 29, 2008, options to purchase 128,116 shares of common stock were outstanding as of the end of the period, but were not included in the computation of diluted earnings per share due to their anti-dilutive effect. An additional 659,409 shares of restricted common stock were outstanding at the end of the period, but excluded from the calculation of diluted earnings per share due to their anti-dilutive effect under the provisions of SFAS No. 128, *Earnings per Share* (SFAS No. 128).

In calculating diluted earnings per share for the thirteen weeks ended March 31, 2007, options to purchase 156,588 shares of common stock were outstanding as of the end of the period, but were not included in the computation of diluted earnings per share due to their anti-dilutive effect. An additional 215,028 shares of restricted common stock were outstanding at the end of the period, but excluded from the calculation of diluted earnings per share due to their anti-dilutive effect under the provisions of SFAS No. 128.

## 6. Comprehensive Income

Comprehensive income for the thirteen weeks ended March 29, 2008 and March 31, 2007 was \$5.7 million and \$8.1 million, respectively. The difference between comprehensive income and net income resulted from foreign currency translation adjustments.

## 7. Property and Equipment

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

	March 29, 2008	December 29, 2007
Land	\$ 2,261	\$ 2,261
Furniture and fixtures	39,495	39,198
Computer hardware	21,632	21,572
Building	14,970	14,970
Leasehold improvements	140,997	139,917
Computer software	15,196	14,906
Construction in progress	4,866	3,179
	239,417	236,003
Less accumulated depreciation	102,561	96,162
	<u>\$ 136,856</u>	<u>\$ 139,841</u>

## 8. Income Taxes

The Company accounts for uncertainty in income taxes in accordance with Financial Standards Accounting Board Interpretation No. 48 *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). As of March 29, 2008 and December 29, 2007, there were approximately \$1.2 million of unrecognized tax benefits. In the next twelve months, management of the Company does not expect any significant changes.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of March 29, 2008 and December 29, 2007, there was approximately \$0.2 million of accrued interest related to uncertain tax positions.

The Company's fiscal 2005 federal tax return is currently under audit by the IRS. Management does not believe that this will result in a material adjustment.

## **9. Segment Information**

The Company's operations are conducted through three reportable segments consisting of retail, international franchising, and licensing and entertainment. The retail segment includes the operating activities of company-owned stores in the United States, Canada, Puerto Rico, the United Kingdom, Ireland, France, and other retail delivery operations, including the Company's web stores and non-traditional store locations such as baseball parks. The international franchising segment includes the licensing activities of the Company's franchise agreements with store locations in Europe, Asia, Africa, and Australia. The licensing and entertainment segment has been established to market the naming and branding rights of the Company's intellectual properties for third party use. 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. The operating segments have discrete sources of revenue, different capital structures and different cost structures. The reporting segments follow the same accounting policies used for the Company's consolidated financial statements.

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

	Retail	International Franchising	Licensing & Entertainment	Total
<b>Thirteen weeks ended March 29, 2008</b>				
Net sales to external customers	\$ 121,854	\$ 1,249	\$ 704	\$ 123,807
Income before income taxes	8,850	778	520	10,148
Capital expenditures, net	5,594	118	—	5,712
Depreciation and amortization	6,786	214	2	7,002
<b>Thirteen weeks ended March 31, 2007</b>				
Net sales to external customers	\$ 115,883	\$ 695	\$ 236	\$ 116,814
Income before income taxes	12,475	334	178	12,987
Capital expenditures, net	4,986	389	—	5,375
Depreciation and amortization	6,135	122	3	6,260
<b>Total Assets as of:</b>				
March 29, 2008	\$ 308,797	\$ 2,512	\$ 2,192	\$ 313,501
March 31, 2007	\$ 290,327	\$ 3,730	\$ 1,886	\$ 295,943

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

	North America (1)	Europe (2)	Other (3)	Total
<b>Thirteen weeks ended March 29, 2008</b>				
Net sales to external customers	\$ 106,185	\$ 16,373	\$ 1,249	\$ 123,807
Property and equipment, net	116,616	20,234	6	136,856
<b>Thirteen weeks ended March 31, 2007</b>				
Net sales to external customers	\$ 105,320	\$ 10,799	\$ 695	\$ 116,814
Property and equipment, net	113,708	15,731	16	129,455

(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

#### 10. Investment in Affiliate

The Company holds a minority interest in RidemakerZ, LLC, which is accounted for under the equity method. RidemakerZ is an early-stage company that has developed an interactive retail concept that allows children and families to build and customize their own personalized cars. In 2006, the Company invested \$0.6 million, which represented an ownership interest of approximately 10%. The Company invested an additional \$2.4 million in 2007. The Company also entered into a series of agreements whereby the Company agreed to perform advisory and operational support services for RidemakerZ in exchange for additional equity. The Company received \$0.2 million in equity in exchange for support services provided in the thirteen weeks ended March 29, 2008 and March 31, 2007. 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 is exercisable on April 30, 2008 and expires on April 30, 2012. As of March 29, 2008, the investment in RidemakerZ was approximately \$4.5 million, which represented an ownership interest of approximately 22%. Due to the structure of the Company's investment in RidemakerZ, no income or loss allocations were recorded in the thirteen weeks ended March 29, 2008 or March 31, 2007. Under the current agreements, Build-A-Bear Workshop, Inc. could own up to approximately 38% of fully diluted equity in RidemakerZ.

As of March 29, 2008 and December 29, 2007, outstanding receivables from RidemakerZ were \$1.3 million and \$0.8 million, respectively.

## 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 December 29, 2007, as filed with the SEC, and the following: 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 open new stores or may be unable to effectively manage our growth; we may be unable to effectively manage our international franchises or laws relating to those franchises may change; customer traffic may decrease in the shopping malls where we are located, on which we depend to attract guests to our stores; general economic conditions may deteriorate, which could lead to disproportionately reduced consumer demand for our products, which represent relatively discretionary spending; high petroleum products prices could increase our inventory transportation costs and adversely affect our profitability; we may be unable to repurchase shares at all or at the times or in the amounts we currently anticipate or the results of the share repurchase program may not be as beneficial as we currently anticipate; we may be unable to realize some of the expected benefits of the acquisition of Amsbra and Bear Factory, and the inclusion of France as a Company-owned country; we may lose key personnel, be unable to hire qualified additional personnel, or experience turnover of our management team; the ability of our principal vendors to deliver merchandise may be disrupted; the availability and costs of our products could be adversely affected by risks associated with international manufacturing and trade; we may be unable to realize the anticipated benefits from our company-owned distribution center or our third-party distribution center providers may perform poorly; fluctuations in our quarterly results of operations could cause the price of our common stock to substantially decline 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; our market share could be adversely affected by a significant, or increased, number of competitors; we may suffer negative publicity or be sued due to violations of labor laws or unethical practices by manufacturers of our merchandise; 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 improperly obtain or be unable to protect information from our guests in violation of privacy or security laws or expectations; we may fail to renew, register or otherwise protect our trademarks or other intellectual property; and we may have disputes with, or be sued by, third parties for infringement or misappropriation of their proprietary rights. These risks, uncertainties and other factors may adversely affect our business, growth, financial condition or profitability, or subject us to potential liability, and cause our actual results, performance or achievements to be materially different from those expressed or implied by our forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### Overview

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

As of March 29, 2008, we operated 274 stores in the United States, Canada, and Puerto Rico, 51 stores in the United Kingdom, Ireland and France, and had 52 franchised stores operating internationally under the Build-A-Bear Workshop brand. In addition to our stores, we market our products and build our brand through our website, which simulates our interactive shopping experience, as well as non-traditional store locations in five Major League Baseball® parks, one location in a zoo, one location in a science center and our presence at event-based locations through our mobile store. Seasonal locations, such as ballparks and zoos, and our mobile store are excluded from our store count.

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

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

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

Selected financial data attributable to each segment for the thirteen weeks ended March 29, 2008 and March 31, 2007 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 21.1% for the thirteen weeks ended March 29, 2008 and 24.4% for the thirteen weeks ended March 31, 2007 and consolidated net income as a percentage of total revenues was 5.2% for the thirteen weeks ended March 29, 2008 and 6.9% for the thirteen weeks ended March 31, 2007. See “— Non-GAAP Financial Measures” for a definition of store contribution and a reconciliation of store contribution to net income. The decrease in our store contribution over the prior year was primarily due to the decline in gross margin, resulting primarily from a lack of sales leverage on store occupancy costs. We have maintained what we believe to be a high store contribution level through the creation of economies of scale which allow us to decrease the cost of our product on a per unit basis and continued expense management through labor planning and the monitoring of store supplies and other expenses.

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. In the fiscal 2008 first quarter our European operations met the criteria for inclusion in the comparable store sales calculation for the first time. As such, there is no historic comparable store sales data for the European operations. The percentage change in comparable store sales for the periods presented below is as follows:

	<u>Thirteen Weeks Ended</u>	
	<u>March 29, 2008</u>	<u>March 31, 2007</u>
North America	(13.1)%	(6.9)%
Europe	14.5%	—
Consolidated	(10.5)%	(6.9)%

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

- Our products are highly discretionary in nature. We believe that the more difficult macroeconomic conditions impacting consumer discretionary spending are impacting our comparable stores sales.
- We believe the slow down in shopping mall customer traffic during the fiscal 2008 first quarter compared to the same period in fiscal 2007 has impacted the number of new and returning Guests visiting our stores and therefore our comparable store sales.
- Changes in media, online entertainment, children’s media consumption, and play patterns, particularly for girls, have increased the interactive play alternatives available to children and have, we believe, impacted our comparable store sales.

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

- Reduce the number of store openings returning to historical levels of new store growth allowing the Company to focus on existing markets and stores, and on expense savings initiatives.
- Increase awareness of the Company’s new virtual world website, Buildabearville.com™, a social networking community and interactive play platform that leverages the customer store experience and creates higher brand engagement across both physical and online world platforms.
- Manage expenses with an emphasis on maintaining store payroll costs, as a percentage of sales, maintaining warehousing and distribution costs, reducing travel expenses and eliminating all non-essential activities and expenses.
- Enhance communications to the Company’s loyalty program members with improved timing, personalization and incentives to over 4 million active members enrolled in the program.

- Reallocate marketing spending, focusing on the most effective historical programs as well as shifting media to reflect current consumer and social trends.
- Further refine our merchandise assortment with an emphasis on product newness and product collectability.

## Expansion and Growth Potential

### Retail Stores:

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

	Thirteen weeks ended	
	March 29, 2008	March 31, 2007
Beginning of period	321	271
Opened	4	6
End of period	325	277

During fiscal 2008, we anticipate opening approximately 20 Build-A-Bear Workshop stores in the United States and Canada, and five new stores in Europe. We believe there is a market potential for at least 350 Build-A-Bear Workshop stores in the United States and Canada, approximately 70 to 75 stores in the United Kingdom and Ireland, and approximately 50 stores in France.

We also have store locations for our proprietary "Friends 2B Made" line of make-your-own dolls and related products. As of March 29, 2008, we operated one stand-alone Friends 2B Made store and eight Friends 2B Made stores adjacent to Build-A-Bear Workshop stores in the United States. Other than the one stand-alone store, these Friends 2B Made stores are not included in our store count, but rather are considered expansions of existing Build-A-Bear Workshop stores. We continue to evaluate our business plan and operations with a view to prioritizing initiatives that will allow us to achieve our long-term business goals of delivering sales and earnings growth. As part of our evaluation, we continue to review the long-term potential of this concept.

### Non-Traditional Store Locations:

In fiscal 2004, we began offering merchandise in seasonal, event-based locations such as Major League Baseball® ballparks, as well as at temporary locations such as at the NBA All-Star Jam Session. We expect to expand our future presence at select seasonal, event-based locations contingent on their availability. As of March 29, 2008, we had a total of five ballpark locations, one store within a zoo and one store within a science center. Seasonal locations, such as ballparks and zoos, and our mobile store are excluded from our store count.

### International Franchise Revenue:

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

	Thirteen weeks ended	
	March 29, 2008	March 31, 2007
Beginning of period	53	34
Opened	4	4
Closed	(5)	(1)
End of period	52	37

As of March 29, 2008, we had master franchise agreements, which typically grant franchise rights for a particular country or countries, covering 21 countries. We anticipate signing additional master franchise agreements in the future. We expect our franchisees to open 15 to 20 stores in fiscal 2008, net of closures. We believe there is a market potential for approximately 300 franchised stores outside of the United States, Canada, Puerto Rico, the United Kingdom, Ireland and France.

## Results of Operations

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

	Thirteen weeks ended	
	March 29, 2008	March 31, 2007
<b>Revenues:</b>		
Net retail sales	98.4%	99.2%
Franchise fees	1.0	0.6
Licensing revenue	0.6	0.2
Total revenues	100.0	100.0
<b>Costs and expenses:</b>		
Cost of merchandise sold (1)	56.4	53.7
Selling, general and administrative	36.2	35.5
Store preopening	0.4	0.6
Interest expense (income), net	(0.4)	(0.5)
Total costs and expenses	91.8	88.9
Income before income taxes	8.2	11.1
Income tax expense	3.0	4.2
Net income	5.2%	6.9%
Gross Margin % (2)	43.6%	46.3%

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

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

### **Thirteen weeks ended March 29, 2008 compared to thirteen weeks ended March 31, 2007**

**Total revenues.** Net retail sales increased to \$121.8 million for the thirteen weeks ended March 29, 2008 from \$115.9 million for the thirteen weeks ended March 31, 2007, an increase of \$5.9 million, or 5.1%. Net retail sales for new stores contributed a \$13.2 million increase in net retail sales in North America and a \$3.8 million increase in Europe. First quarter 2008 consolidated comparable store sales (North American and European operations) declined 10.5%. Comparable stores sales in North America declined \$13.4 million or 13.1% compared to a decline of 6.9% in the 2007 first quarter. Comparable stores sales in Europe increased \$1.5 million or 14.5% from the same period in the prior year. During the 2008 first quarter, the Company began reporting comparable store sales for European operations for the first time. Sales over the Internet decreased by \$0.1 million, or 2.7%. An increase of \$0.9 million of other items, including but not limited to the impact of foreign currency translation, deferred revenue adjustment, and decrease in non-store location sales, compared to the prior period also contributed to the increase in net retail sales.

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

- Our products are highly discretionary in nature. We believe that the more difficult macroeconomic conditions impacting consumer discretionary spending are impacting our comparable stores sales.
- We believe the slow down in shopping mall customer traffic during the fiscal 2008 first quarter compared to the same period in fiscal 2007 has impacted the number of new and returning Guests visiting our stores and therefore our comparable store sales.
- Changes in media, online entertainment, children's media consumption, and play patterns, particularly for girls, have increased the interactive play alternatives available to children and have, we believe, impacted our comparable store sales.

Revenue from franchise fees increased to \$1.2 million for the thirteen weeks ended March 29, 2008 from \$0.7 million for the thirteen weeks ended March 31, 2007, an increase of \$0.5 million. This increase was primarily due to the addition of new franchise agreements and new franchised stores opened in the past year. Revenue from licensing increased to \$0.7 million for the thirteen weeks ended March 29, 2008 from \$0.2 million for the thirteen weeks ended March 31, 2007, an increase of \$0.5 million. This increase was primarily related to increased licensing activities.

*Gross margin.* Gross margin decreased to \$53.1 million for the thirteen weeks ended March 29, 2008 from \$53.6 million for the thirteen weeks ended March 31, 2007, a decrease of \$0.5 million, or 0.9%. As a percentage of net retail sales, gross margin declined to 43.6% for the thirteen weeks ended March 29, 2008 from 46.3% for the thirteen weeks ended March 31, 2007, a decrease of 270 basis points as a percentage of net retail sales (“bps”). The decline in gross margin was primarily attributable to a lack of leverage on fixed occupancy costs in the North American operations and partially offset by improved leverage in Europe. Consolidated merchandise margin remained constant as a decline in the North America merchandise margin was offset by stronger margin earned on European sales.

*Selling, general and administrative.* Selling, general and administrative expenses were \$44.8 million for the thirteen weeks ended March 29, 2008 as compared to \$41.4 million for the thirteen weeks ended March 31, 2007, an increase of \$3.4 million, or 8.2%. As a percentage of total revenues, selling, general and administrative expenses increased to 36.2% for the thirteen weeks ended March 29, 2008 as compared to 35.5% for the thirteen weeks ended March 31, 2007, an increase of 70 bps. The dollar increase was primarily due to having 48 more stores in operation at March 29, 2008 as compared to March 31, 2007. The increase in selling, general and administrative expenses as a percent of revenue was primarily due to increases in stock-based compensation expense, store payroll and costs associated with the review of strategic alternatives. Partially offsetting this increase were modest improvements in the Company’s leverage of expenses in its European operations.

*Store preopening.* Store preopening expense was \$0.6 million for the thirteen weeks ended March 29, 2008 as compared to \$0.7 million for the thirteen weeks ended March 31, 2007. The decrease in store preopening for the period was the result of timing of store preopening activities. We expect to open six stores during the fiscal 2008 second quarter as compared to 16 stores opened during the same period in fiscal 2007. Preopening expenses include expenses for stores that opened in the current period as well as some expenses incurred for stores that will be opened in future periods.

*Interest expense (income), net.* Interest income, net of interest expense, was \$0.5 million for the thirteen weeks ended March 29, 2008 and March 31, 2007.

*Provision for income taxes.* The provision for income taxes was \$3.8 million for the thirteen weeks ended March 29, 2008 as compared to \$4.9 million for the thirteen weeks ended March 31, 2007. The effective tax rate was 37.0% for the thirteen weeks ended March 29, 2008 compared to 37.9% for the thirteen weeks ended March 31, 2007. The decrease in the effective tax rate was primarily attributable to a reduction of valuation allowances on net operating loss carryforwards.

## Non-GAAP Financial Measures

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

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

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

	Thirteen weeks ended March 29, 2008			Thirteen weeks ended March 31, 2007		
	North America	Europe	Total	North America	Europe	Total
Net income	\$ 6,537	\$ (144)	\$ 6,393	\$ 10,296	\$ (2,231)	\$ 8,065
Income tax expense	3,755	—	3,755	4,922	—	4,922
Interest expense (income)	(341)	(119)	(460)	(545)	—	(545)
Store depreciation and amortization (1)	4,472	812	5,284	4,148	545	4,693
Store preopening expense	335	218	553	513	175	688
General and administrative expense (2)	10,865	294	11,159	10,084	861	10,945
Franchising and licensing contribution (3)	(1,513)	—	(1,513)	(539)	—	(539)
Non-store activity contribution (4)	(241)	(92)	(333)	(1,016)	(8)	(1,024)
Store contribution	<u>\$ 23,869</u>	<u>\$ 969</u>	<u>\$ 24,838</u>	<u>\$ 27,863</u>	<u>\$ (658)</u>	<u>\$ 27,205</u>
Total revenues	\$107,434	\$16,373	\$123,807	\$106,015	\$10,799	\$116,814
Franchising and licensing revenues	(1,953)	—	(1,953)	(931)	—	(931)
Revenues from non-store activities (4)	(3,698)	(287)	(3,985)	(3,985)	(197)	(4,182)
Store location net retail sales	<u>\$101,783</u>	<u>\$16,086</u>	<u>\$117,869</u>	<u>\$101,099</u>	<u>\$10,602</u>	<u>\$111,701</u>
Store contribution as a percentage of store location net retail sales	<u>23.5%</u>	<u>6.0%</u>	<u>21.1%</u>	<u>27.6%</u>	<u>-6.2%</u>	<u>24.4%</u>
Total net income as a percentage of total revenues	<u>6.1%</u>	<u>-0.9%</u>	<u>5.2%</u>	<u>9.7%</u>	<u>-20.7%</u>	<u>6.9%</u>

- (1) Depreciation and amortization includes depreciation and amortization of all capitalized assets in store locations, including leasehold improvements, furniture and fixtures, and computer hardware and software, included in cost of merchandise sold and depreciation related to the virtual world.
- (2) 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 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.
- (3) Franchising and licensing contribution includes franchising and licensing revenues and all expenses attributable to the international franchising and licensing and entertainment segments other than depreciation, amortization and interest expense/income. Depreciation and amortization related to franchising and licensing is included in the general and administrative expense caption. Interest expense/income related to franchising and licensing is included in the interest expense (income) caption.

- (4) Non-store activities include our webstores, and seasonal and event-based locations.

### Seasonality and Quarterly Results

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

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

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

### Liquidity and Capital Resources

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

*Operating Activities.* Cash used in operating activities was \$9.6 million for the thirteen weeks ended March 29, 2008 as compared with cash used in operating activities of \$1.0 million for the thirteen weeks ended March 31, 2007, or an increase of \$8.6 million. This increase of cash used in operating activities over the year ago period was primarily due to changes in the timing of inventory purchases and the increase in prepaid rent due to new stores in Europe.

*Investing Activities.* Cash used in investing activities was \$5.9 million for the thirteen weeks ended March 29, 2008 as compared to \$5.6 million for the thirteen weeks ended March 31, 2007. Cash used in investing activities during the thirteen weeks ended March 29, 2008 and March 31, 2007 primarily relates to new store construction costs.

*Financing Activities.* Cash used in financing activities was \$8.3 million in the thirteen weeks ended March 29, 2008 which consisted of cash spent for the repurchase of the Company's common stock. Cash flows used in financing activities of \$4.2 million for the thirteen weeks ended March 31, 2007 consisted primarily of cash spent for the repurchase of the Company's common stock partially offset by proceeds from the exercise of stock options and the tax benefit from the exercise of stock options. No borrowings were made under our line of credit in either the thirteen weeks ended March 29, 2008 or the thirteen weeks ended March 31, 2007.

*Capital Resources.* As of March 29, 2008, we had a cash balance of \$41.2 million. We also have a line of credit, which we can use to finance capital expenditures and seasonal working capital needs throughout the year. The credit agreement is with U.S. Bank, National Association and was amended effective June 19, 2007 to include a seasonal overline from July 1 to December 31 each year during which the line availability increases from \$15 million to \$30 million. Borrowings under the credit agreement are not collateralized, but availability under the credit agreement can be limited by the lender based on our level of accounts receivable, inventory, and property and equipment. The credit agreement expires on September 30, 2008 and contains various restrictions on indebtedness, liens, guarantees, redemptions, mergers, acquisitions or sale of assets, loans, transactions with affiliates, and investments. It also prohibits us from declaring dividends without the bank's prior consent, unless such payment of dividends would not violate any terms of the credit agreement. Borrowings bear interest at our option of prime minus 1.0% or LIBOR plus 1.5%. 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 March 29, 2008, we were in compliance with these covenants. There were no borrowings under our line of credit as of March 29, 2008. There was a standby letter of credit of approximately \$1.1 million outstanding under the credit agreement as of March 29, 2008. Accordingly, there was approximately \$13.9 million available for borrowing under the line of credit as of March 29, 2008.

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

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

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

In fiscal 2008, we expect to spend a total of \$25 to \$30 million on capital expenditures. Capital spending through the thirteen weeks ended March 29, 2008 totaled \$5.7 million, on track with our full year plans. Capital spending in fiscal 2008 is primarily for the opening of approximately 25 new stores (20 in North America and 5 in Europe), and the continued installation and upgrades of central office information technology systems. In fiscal 2007, the average investment per new store in North America, which includes leasehold improvements, fixtures, equipment and inventory, was approximately \$0.6 million.

We believe that cash generated from operations and borrowings under our credit agreement will be sufficient to fund our working capital and other cash flow requirements for at least the next 18 months. Our credit agreement expires on September 30, 2008.

On March 10, 2008, we announced an expanded share repurchase program. Under this expanded share repurchase program, we currently intend to purchase up to \$50 million of our common stock in the open market (including through 10b5-1 trading plans), through privately negotiated transactions, or through an accelerated repurchase transaction. The primary source of funding for the program is expected to be cash on hand. The timing and amount of share repurchases, if any, will depend on price, market conditions, applicable regulatory requirements, and other factors. The program authorizes the Company to repurchase shares over the next 12 months, does not require us to repurchase any specific number of shares, and may be modified, suspended or terminated at any time without prior notice. Shares repurchased under the program will be subsequently retired. As of March 29, 2008, approximately 1.05 million shares at an average price of \$8.21 per share have been repurchased under this program for an aggregate amount of \$8.6 million.

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

The Company holds a minority interest in RidemakerZ, LLC, which is accounted for under the equity method. The Company 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 is exercisable on April 30, 2008 and expires on April 30, 2012. As of March 29, 2008, the investment in RidemakerZ was approximately \$4.5 million, which represented an ownership interest of approximately 22%. Under the current agreements, Build-A-Bear Workshop, Inc. could own up to approximately 38% of fully diluted equity in RidemakerZ. See Note 10 – Investment in Affiliate to the Condensed Consolidated Financial Statements for additional information.

#### **Inflation**

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

#### **Critical Accounting Policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires the appropriate application of certain accounting policies, many of 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 our selection and application of accounting policies, and the estimates inherently required therein, is reasonable. These accounting policies and estimates are periodically reevaluated, 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 accounting policies and use of estimates are discussed in and should be read in conjunction with the annual consolidated financial statements and notes included in our annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 13, 2008, which includes audited consolidated financial statements for our 2007, 2006 and 2005 fiscal years. We have identified certain critical accounting policies which are described below.

### ***Inventory***

Inventory is stated at the lower of cost or market, with cost determined on an average cost basis. Historically, we have not conducted sales whereby we offer significant discounts or markdowns, nor have we experienced significant occurrences of obsolete or slow moving inventory. However, future changes in circumstances, such as changes in guest merchandise preference, could cause reclassification of inventory as obsolete or slow-moving inventory. The effect of this reclassification would be the recording of a reduction in the value of inventory to realizable values.

Throughout the year we record an estimated cost of shortage based on past historical results. Periodic physical inventories are taken and any difference between the actual physical count of merchandise and the recorded amount in our records are adjusted and recorded as shortage. Historically, the timing of the physical inventory has been near the end of the fiscal year so that no material amount of shortage was required to be estimated on activity between the date of the physical count and year-end. However, future physical counts of merchandise may not be at times at or near the end of a fiscal quarter or fiscal year-end, and our estimate of shortage for the intervening period may be material based on the amount of time between the date of the physical inventory and the date of the fiscal quarter or year-end.

### ***Long-Lived Assets***

If facts and circumstances indicate that a long-lived asset, including property and equipment, may be impaired, the carrying value is reviewed. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value.

### ***Goodwill and Other Intangible Assets***

Intangible assets deemed to have indefinite lives and goodwill are not subject to amortization. All other intangible assets are amortized over their estimated useful lives. Goodwill and other intangible assets not subject to amortization are 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 values of impaired assets is reduced to fair value. We reviewed our goodwill and other intangible assets as of December 29, 2007 and determined that no impairment existed.

### ***Revenue Recognition***

Revenues from retail sales, net of discounts and excluding sales tax, are recognized at the time of sale. Guest returns have not been significant. Revenues from gift certificates are recognized at the time of redemption. Unredeemed gift cards are included in current liabilities on the consolidated balance sheets.

We have an automated frequent shopper program in the United States, the Stuff Fur Stuff® club, whereby guests enroll in the program and receive one point for every dollar or partial dollar spent and after reaching 100 points receive a \$10 discount on a future purchase. This program replaced the former Buy Stuff® Club. An estimate of the obligation related to the program, based on historical redemption rates, is recorded as deferred revenue and a reduction of net retail sales at the time of purchase. The deferred revenue obligation is reduced, and a corresponding amount is recognized in net retail sales, in the amount of and at the time of redemption of the \$10 discount.

We track redemptions of these various cards and use actual redemption rates by card series and historical results to estimate how much revenue to defer. We review these redemption rates and assess the adequacy of the deferred revenue account at the end of each fiscal quarter. Due to the estimates involved in these assessments, adjustments to the deferral rate are generally made no more often than semi-annually in order to allow time for more definite trends to emerge.

In 2007, we reduced the estimated liability associated with the former Buy Stuff cards by \$0.4 million. Redemptions of Buy Stuff cards were no longer allowed after August 31, 2007. Existing points earned on Buy Stuff cards can be transferred to the new Stuff Fur Stuff club program. Based on the most recent assessment at the end of fiscal 2007, no adjustment was made to the deferral rate.

### ***Leases***

We lease all of our store locations and our corporate headquarters. We account for our leases under the provisions of FASB Statement No. 13, *Accounting for Leases* (SFAS 13) and subsequent amendments, which require that our leases be evaluated and classified as operating or capital leases for financial reporting purposes. All of our store leases are classified as operating leases pursuant to the requirements of SFAS 13. We disburse cash for leasehold improvements and furniture fixtures and equipment to build

out and equip our leased premises. We may also expend cash for permanent improvements that we make to leased premises that generally are reimbursed to us by our landlords as construction allowances (also known as tenant improvement allowances) pursuant to agreed-upon terms in our leases. Landlord allowances can take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. Under the provisions of FASB Technical Bulletin No. 88-1, "Issues Relating to Accounting for Leases," we account for these landlord allowances as lease incentives resulting in a deferred credit to be recognized over the term of the lease as a reduction of rent expense.

### ***New 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. 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 could have been impacted by changes in interest rates. We had no borrowings outstanding under our revolving credit facility during the thirteen weeks ended March 29, 2008. 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.

### **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 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 Financial Bear, have concluded that the Company's disclosure controls and procedures were effective as of March 29, 2008, 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 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 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 December 29, 2007 as filed with the Securities and Exchange Commission on March 13, 2008. Furthermore, our current risk factors include potential product recalls or product liability claims that could adversely impact our financial performance and harm our reputation among consumers.

**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	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Program	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
<b>Dec. 30, 2007 – Jan. 26, 2008 (1)</b>	562	\$ 11.90	—	—
<b>Jan. 27, 2008 – Feb. 23, 2008 (1)</b>	6	\$ 10.92	—	—
<b>Feb. 24, 2008 – Mar. 29, 2008 (1) (2)</b>	1,079,599	\$ 8.23	1,047,300	\$ 36,736,779
<b>Total</b>	<u>1,080,167</u>	<u>\$ 8.23</u>	<u>1,047,300</u>	<u>\$ 36,736,779</u>

- (1) Represents shares of our common stock delivered to us in satisfaction of the tax withholding obligation of holders of restricted shares which vested during the quarter. Our equity incentive plans provide that the value of shares delivered to us to pay the withheld to cover tax obligations is calculated as the average of the high and low trading price of our common stock on the date the relevant transaction occurs.
- (2) On March 10, 2008, we announced an expanded, \$50 million share repurchase program of our outstanding common stock over the next twelve months. The program was authorized by our board of directors. Purchases may be made in the open market or in privately negotiated transactions, with the level and timing of activity depending on market conditions, applicable regulatory requirements, and other factors. Purchases may be increased, decreased or discontinued at any time without notice. Shares purchased under the program were subsequently retired.

**Item 5. Other Information**

(a) The Company adopted a Rule 10b5-1 trading plan on March 18, 2008 with Lehman Brothers Inc. The Company implemented this written trading plan in connection with the increase in its share repurchase program, which was authorized by the Company’s Board of Directors and announced on March 10, 2008.

The Company’s Rule 10b5-1 trading plan allows the Company to repurchase its shares at times when it might otherwise be prevented from doing so due to self-imposed trading blackout periods or pursuant to insider trading laws. Lehman Brothers will have the authority under the terms and limitations specified in the plan to repurchase shares on the Company’s behalf in accordance with the terms of the plan.

In addition, during the first quarter of 2008, the Company made various discretionary repurchases of its shares in open-market transactions pursuant to the share repurchase program, as described further under Part II, Item 2 of this Form 10-Q. The Company expects to continue making discretionary repurchases in the open market or in privately negotiated transactions from time to time. The timing and volume of any such share repurchases will be at the discretion of management. In the future, information regarding share repurchases will be available in the Company’s periodic reports on Form 10-Q and 10-K filed with the Securities and Exchange Commission.

In addition, the following individuals maintain Rule 10b5-1 trading plans (each, a “Plan” and together, the “Plans”): (1) Maxine Clark, Chairman and Chief Executive Bear, and (2) Scott Seay, President and Chief Operating Bear.

Chief Executive Bear Maxine Clark’s Plan was adopted under the name of Smart Stuff, Inc. Ms. Clark controls the voting and/or investment power for the shares held by Smart Stuff, Inc, as its president and sole shareholder. Ms. Clark currently owns 2,906,699 shares of the Company (including vested options and the shares she owns through Smart Stuff, Inc.). Ms. Clark’s Plan permits no more than a maximum of 6% of her current share holdings (including vested options) to be sold during the remainder of 2008. Accordingly, Ms. Clark will continue to have a significant ownership interest in the Company.

The participants in the Plans will have no control over the timing of any sales under their respective Plans and there can be no assurance that the shares covered by the Plans actually will be sold. The participants entered into the Plans in order to diversify their respective financial holdings.

The Plans are intended to comply with Rule 10b5-1 of the Securities Exchange Act of 1934 and the Company's insider trading policy. Rule 10b5-1 allows corporate insiders to establish prearranged written plans to buy or sell a specified number of shares of a company stock over a set period of time. The specified number of shares sold may be determined pursuant to a formula or may be at the discretion of a third party, so long as such person is not aware of material non-public information. Among other things, the Company's insider trading policy allows insiders to implement a written trading plan provided such person is not in possession of material non-public information about the Company at the time the plan is entered into, consistent with Rule 10b5-1. The Plans were established during an "open window" under the Company's insider trading policy.

Except as may be required by law, the Company does not undertake to report written trading plans established by other Company officers or directors, nor to report modifications, terminations, transactions or other activities under the Plans or the plan of any other officer or director. Actual sales made pursuant to the Plans will be disclosed publicly through Form 4 and Form 144 filings with the Securities and Exchange Commission.

#### **Item 6. Exhibits**

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

<b>Exhibit No.</b>	<b>Description</b>
10.1	Form of Restricted Stock Grant Agreement under the Build-A-Bear Workshop, Inc. 2004 Stock Incentive Plan
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)

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

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

Date: May 8, 2008

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 Financial Bear, Treasurer and Secretary

**BUILD-A-BEAR WORKSHOP, INC.  
RESTRICTED STOCK AGREEMENT**

Date of Grant: \_\_\_\_\_  
 Employee: \_\_\_\_\_  
 No. of Restricted Shares: \_\_\_\_\_  
**Performance and Time Based Restrictions:** \_\_\_\_\_  
**Time Based Restrictions Only:** \_\_\_\_\_

This Agreement will certify that the employee named above (“Employee”) is awarded the number of restricted shares of common stock, \$0.01 par value per share (the “Common Stock”), of Build-A-Bear Workshop, Inc. (the “Company”), designated above (the “Restricted Stock”), pursuant to the Build-A-Bear Workshop, Inc. 2004 Stock Incentive Plan (the “Plan”), as of the date indicated above (the “Grant Date”) and subject to the terms, conditions and restrictions in the Plan and those set forth below. Any capitalized, but undefined, term used in this Agreement shall have the meaning ascribed to it in the Plan. Employee’s electronic acceptance within 14 days on his/her personal Merrill Lynch account constitutes Employee’s acceptance of this award and acknowledgement of Employee’s agreement to all the terms, conditions and restrictions contained in the Plan and this Agreement.

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

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

**Terms and Conditions**

**1. Terms of Award.**

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

As described above, you have been awarded \_\_\_\_\_ shares of Restricted Stock which is subject to defined Performance and Time Based Restrictions, and \_\_\_\_\_ shares of Restricted Stock which is only subject to Time Based Restrictions.

Note that for Restricted Stock subject to Performance and Time Based Restrictions, those restrictions are described in Subsections B and C below. If the Performance Based Restrictions set forth in B below are satisfied, your Restricted Stock will still remain subject to Time Based Restrictions. If your Restricted Stock is subject to Time Based Restrictions only, those are described in Subsection C.

**Subsection B. Performance Based Restrictions.** The Restricted Shares set forth above as Performance and Time Based are subject to the restrictions in this Subsection B as well as those described in Subsection C below.

With respect to the grant of Performance and Time Based Restricted Stock described above, the following restrictions shall apply:

[Insert Performance Criteria]

The determination whether the Performance Based Restrictions are satisfied will be made on the one year anniversary of this Grant.

**Subsection C. Time Based Restrictions.**

The Time Based Restrictions on transfer described in this Subsection C shall lapse and be of no further force and effect as follows, if the Employee is still an employee of the Company on the respective annual

anniversary of this Grant, and has been continuously serving as such an employee of the Company during such 12-month period ending on the annual anniversary of this Grant:

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

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

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

**2. Death of the Employee.** In the event of the death of the Employee, all previously granted shares of Restricted Stock not yet free of the restrictions of Section 1 shall become immediately free of Time Based Restrictions described in Section 1.C.

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

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

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

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

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

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

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

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

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

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

## Certification of Principal Executive Officer

I, Maxine Clark, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Build-A-Bear Workshop, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Maxine Clark

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

Date: May 8, 2008

## Certification of Principal Financial Officer

I, Tina Klocke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Build-A-Bear Workshop, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Tina Klocke

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Tina Klocke

Chief Financial Bear, Treasurer and Secretary

Build-A-Bear Workshop, Inc.

(Principal Financial Officer)

Date: May 8, 2008

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Build-A-Bear Workshop, Inc. (the "Company") on Form 10-Q for the period ended March 29, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Maxine Clark, Chairman of the Board and Chief Executive Bear of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Maxine Clark

Maxine Clark

*Chairman of the Board and Chief Executive Bear*

*Build-A-Bear Workshop, Inc.*

Date: May 8, 2008

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Build-A-Bear Workshop, Inc. (the "Company") on Form 10-Q for the period ended March 29, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tina Klocke, Chief Financial Bear, Treasurer and Secretary of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Tina Klocke

Tina Klocke

*Chief Financial Bear, Treasurer and Secretary*

*Build-A-Bear Workshop, Inc.*

Date: May 8, 2008