

**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 July 31, 2021

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.)

415 South 18th St.
St. Louis, Missouri
(Address of Principal Executive Offices)

63103
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock	BBW	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 14(a) of the Exchange Act.

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 September 6, 2021, there were 16,083,412 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
(Dollars in thousands, except share and per share data)

	July 31, 2021 <u>(Unaudited)</u>	January 30, 2021 <u>(Unaudited)</u>	August 1, 2020 <u>(Unaudited)</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 51,136	\$ 34,840	\$ 25,274
Inventories, net	47,342	46,947	55,509
Receivables, net	8,648	8,295	6,314
Prepaid expenses and other current assets	8,841	10,111	5,400
Total current assets	<u>115,967</u>	<u>100,193</u>	<u>92,497</u>
Operating lease right-of-use asset	93,087	104,825	114,709
Property and equipment, net	48,161	52,973	58,085
Other assets, net	7,060	3,381	2,972
Total Assets	<u>\$ 264,275</u>	<u>\$ 261,372</u>	<u>\$ 268,263</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 16,028	\$ 17,901	\$ 23,267
Accrued expenses	20,972	17,551	15,911
Operating lease liability short term	28,019	32,402	39,917
Gift cards and customer deposits	18,096	19,029	17,988
Deferred revenue and other	2,723	2,445	2,659
Total current liabilities	<u>85,838</u>	<u>89,328</u>	<u>99,742</u>
Operating lease liability long term	89,883	101,462	111,640
Deferred franchise revenue	847	920	916
Other liabilities	2,572	2,354	1,430
Stockholders' equity:			
Preferred stock, par value \$0.01, Shares authorized: 15,000,000; No shares issued or outstanding at July 31, 2021, January 30, 2021 and August 1, 2020	-	-	-
Common stock, par value \$0.01, Shares authorized: 50,000,000; Issued and outstanding: 16,033,134, 15,930,958 and 15,591,553 shares, respectively	160	159	156
Additional paid-in capital	73,397	72,822	71,906
Accumulated other comprehensive loss	(12,579)	(12,615)	(12,339)
Retained earnings/(deficit)	24,157	6,942	(5,188)
Total stockholders' equity	<u>85,135</u>	<u>67,308</u>	<u>54,535</u>
Total Liabilities and Stockholders' Equity	<u>\$ 264,275</u>	<u>\$ 261,372</u>	<u>\$ 268,263</u>

See accompanying notes to condensed consolidated financial statements.

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

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

	Thirteen weeks ended		Twenty-six weeks ended	
	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Revenues:				
Net retail sales	\$ 91,289	\$ 39,339	\$ 180,501	\$ 84,986
Commercial revenue	2,946	865	5,055	1,198
International franchising	493	149	865	793
Total revenues	<u>94,728</u>	<u>40,353</u>	<u>186,421</u>	<u>86,977</u>
Costs and expenses:				
Cost of merchandise sold - retail	42,677	30,233	84,770	63,585
Store asset impairment	-	2,063	0	6,882.00
Cost of merchandise sold - commercial	1,286	387	2,190	527
Cost of merchandise sold - international franchising	365	130	633	385
Total cost of merchandise sold	<u>44,328</u>	<u>32,813</u>	<u>87,593</u>	<u>71,379</u>
Consolidated gross profit	50,400	7,540	98,828	15,598
Selling, general and administrative expense	40,919	21,516	76,161	48,241
Interest expense, net	8	7	13	4
Income (loss) before income taxes	9,473	(13,983)	22,654	(32,647)
Income tax expense	2,638	(74)	5,439	2,466
Net income (loss)	<u>\$ 6,835</u>	<u>\$ (13,909)</u>	<u>\$ 17,215</u>	<u>\$ (35,113)</u>
Foreign currency translation adjustment	(47)	(429)	36	(259)
Comprehensive income (loss)	<u>\$ 6,788</u>	<u>\$ (14,338)</u>	<u>\$ 17,251</u>	<u>\$ (35,372)</u>
Income (loss) per common share:				
Basic	<u>\$ 0.44</u>	<u>\$ (0.93)</u>	<u>\$ 1.13</u>	<u>\$ (2.35)</u>
Diluted	<u>\$ 0.42</u>	<u>\$ (0.93)</u>	<u>\$ 1.08</u>	<u>\$ (2.35)</u>
Shares used in computing common per share amounts:				
Basic	15,398,406	14,999,786	15,230,215	14,936,541
Diluted	16,111,587	14,999,786	15,958,520	14,936,541

See accompanying notes to condensed consolidated financial statements.

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

	Twenty-six weeks ended	
	July 31, 2021	August 1, 2020
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ 17,215	\$ (35,113)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,120	6,711
Share-based and performance-based stock compensation	1,526	736
Impairment of right-of-use assets and fixed assets	-	6,882
Deferred taxes	-	3,388
Provision for doubtful accounts	113	669
Loss on disposal of property and equipment	28	22
Change in assets and liabilities:		
Inventories, net	(263)	(2,217)
Receivables, net	(427)	4,512
Prepaid expenses and other assets	(1,919)	1,697
Accounts payable and accrued expenses	1,108	8,360
Operating leases	(4,429)	8,732
Gift cards and customer deposits	(946)	(2,213)
Deferred revenue	268	(256)
Net cash provided by operating activities	18,394	1,910
Cash flows used in investing activities:		
Purchases of property and equipment	(1,553)	(3,378)
Net cash used in investing activities	(1,553)	(3,378)
Cash flows used in financing activities:		
Proceeds from the exercise of employee stock options, net of tax withholding obligation	(625)	(114)
Net cash used in financing activities	(625)	(114)
Effect of exchange rates on cash	80	123
Increase (decrease) in cash, cash equivalents, and restricted cash	16,296	(1,459)
Cash, cash equivalents and restricted cash, beginning of period	34,840	28,395
Cash, cash equivalents and restricted cash, end of period	\$ 51,136	\$ 26,936
Supplemental disclosure of cash flow information:		
Cash and cash equivalents	\$ 49,426	\$ 25,274
Restricted cash from long-term deposits	\$ 1,710	\$ 1,662
Total cash, cash equivalents and restricted cash	\$ 51,136	\$ 26,936
Net cash paid (received) during the period for income taxes	\$ 3,502	\$ (135)

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared by Build-A-Bear Workshop, Inc. and its subsidiaries (collectively, the "Company") pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet of the Company as of January 30, 2021 was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and reflect all adjustments which are, in the opinion of management, necessary to summarize fairly the financial position of the Company and the results of the Company's operations and cash flows for the periods presented. All of these adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Because of the seasonal nature of the Company's operations, results of operations of any single reporting period should not be considered as indicative of results for a full year. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended January 30, 2021, which were included in the Company's Annual Report on Form 10-K filed with the SEC on April 15, 2021.

COVID-19 Pandemic

The Company's results of operations in fiscal 2020 ended January 30, 2021 were significantly negatively impacted by COVID-19 which was declared a global pandemic by the World Health Organization in March 2020. In the beginning of fiscal 2021 most of the Company's United States store portfolio was open and operating while its stores in the United Kingdom, Canada, and Ireland remained temporarily closed. In April 2021, stores in the United Kingdom reopened as the government lifted lockdown restrictions resulting in almost all of the Company's stores operating as the end of the 2021 first fiscal quarter with the remaining stores in the United Kingdom and Ireland opening in the second fiscal quarter and ending the quarter with all stores open. The majority of the Company's Canadian stores were temporarily closed to begin the second fiscal quarter with the majority reopening in June 2021 and with all stores open at the end of second fiscal quarter.

Significant Accounting Policies

The Company's significant accounting policies are summarized in Note 2 to the consolidated financial statements included in its Form 10-K for the year ended January 30, 2021.

Government Grants

As a result of the pandemic, governments enacted relief legislation and stimulus packages to help combat the economic effects through such things as payroll expense reimbursement and business and restart grants. Due to the nature of these grants relating to income, they can be presented in one of two ways: (1) a credit in the income statement under a general heading such as "other income" or (2) as a reduction to the related expense. The Company applied for reimbursement of payroll expenses in certain jurisdictions through COVID-19 related government programs for payroll paid to employees who were paid while not providing services to the Company and for business and restart grants from the United Kingdom government for businesses in the retail, hospitality and leisure sectors. The Company recorded a reduction of expenses of less than \$0.1 million for the thirteen weeks ended July 31, 2021 related to these wages within the Selling, general and administrative line in the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss) for employees in various jurisdictions. For the thirteen weeks ended August 1, 2020, the Company recorded a reduction to expense of \$1.5 million. For the twenty-six weeks ended July 31, 2021 and August 1, 2020, the Company recorded a reduction of expense related to payroll reimbursements of \$1.0 million and \$3.0 million, respectively. The business and restart grants in the United Kingdom for businesses in the non-essential retail, hospitality and leisure sectors, were applied for on a per-property basis to support businesses through the latest lockdown restrictions. For the thirteen weeks ended July 31, 2021, the Company recorded an expense of less than \$0.1 million due to an adjustment of the amounts recorded in the prior fiscal quarter. This amount was recorded as "other expense" within the Selling, general and administrative line in the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss). The Company did not record income related to business or restart grants in the thirteen weeks ended August 1, 2020. For the twenty-six weeks ended July 31, 2021, the Company recorded \$0.9 million of business and restart grants. The Company did not record income related to business or restart grants for the twenty-six weeks ended August 1, 2020.

Entertainment Production Costs

Costs of producing entertainment assets, which include direct costs, production overhead and development costs, are capitalized when incurred and are stated at the lower of cost, less accumulated amortization, or fair value. For film related costs, the Company expects assets to be monetized individually and will be amortized using the individual film-forecast-computation method which amortizes such costs in the same ratio that current period actual revenue bears to the estimated remaining unrecognized total revenues (ultimate revenue). Ultimate revenue includes estimates over a period not to exceed ten years from the date of initial release of the film. Participation costs and residuals are accrued and expensed over the applicable product life cycle based upon the ratio of the current period's revenues to the estimated remaining total revenues for each production.

Costs of entertainment productions are subject to recoverability assessments, which for content predominantly monetized individually, compare the estimated fair values with the unamortized cost, whenever events or changes in circumstances indicate that the fair value of the film may be less than the unamortized cost. The fair value is determined based on a discounted cash flow analysis of the cash flows directly attributable to the entertainment assets. The discounted cash flow analysis includes cash flow estimates of ultimate revenue as well as a discount rate (a Level 3 fair value measurement). The discount rate used in the Company's discounted cash flow model will reflect the time value of money, expectations about variation in the amount or timing of the most likely cash flows, and the price market participants would seek for bearing the uncertainty inherent with the film asset. The amount by which the unamortized costs of entertainment assets exceed their estimated fair values are written off. As of July 31, 2021 and August 1, 2020, the Company had capitalized entertainment production costs of \$5.3 million and \$0.3 million, respectively. The entertainment production comprising a significant portion of the capitalized entertainment production costs balance as of July 31, 2021 is expected to be released in late October 2021.

2. Revenue

Nearly all the Company's revenue is derived from retail sales (including from its e-commerce sites) and is recognized when control of the merchandise is transferred to the customer. The Company's disaggregated revenue is fully disclosed as net sales to external customers by reporting segment and by geographic area (See Note 11 — Segment Information for additional information). The Company's direct-to-consumer reporting segment represents 96% of consolidated revenue for the second quarter of fiscal 2021. The majority of these sales transactions were single performance obligations that were recorded when control was transferred to the customer.

The following is a description of principal activities from which the Company generates its revenue, by reportable segment.

The Company's direct-to-consumer segment includes the operating activities of corporately-managed stores, other retail-delivered operations and online sales. Direct-to-consumer revenue is recognized when control of the merchandise is transferred to the customer and for the Company's online sales, generally upon estimated delivery to the customer. Revenue is measured as the amount of consideration, including any discounts or incentives, the Company expects to receive in exchange for transferring the merchandise. Product returns have historically averaged less than one-half of one percent due to the personalized and interactive nature of sales, where consumers customize their own stuffed animal. The Company has elected to exclude from revenue all collected sales, value added and other taxes paid by its customers.

For the Company's gift cards, revenue, including any related gift card discounts, is deferred for single transactions until redemption. Historically, the vast majority of gift card redemptions have occurred within two years of acquisition and approximately 75% of gift cards have been redeemed within the first twelve months. In addition, unredeemed gift cards or breakage revenue is recorded in proportion to the customer's redemption period using an estimated breakage rate based on historical experience. For certain qualifying transactions, a portion of revenue transactions are deferred for the obligation related to the Company's loyalty program or when a material right in the form of a future discount is granted. In these transactions, the transaction price is allocated to the separate performance obligations based on the relative standalone selling price. The standalone selling price for the points earned for the Company's loyalty program is estimated using the net retail value of the merchandise purchased, adjusted for estimated breakage based on historical redemption patterns. The revenue associated with the initial merchandise purchased is recognized immediately and the value assigned to the points is deferred until the points are redeemed, forfeited or expired. In regard to the consolidated balance sheet, contract liabilities for gift cards are classified as gift cards and customer deposits and deferred revenues for the Company's loyalty program are classified as deferred revenue and other.

The Company's commercial segment includes transactions with other businesses and are mainly comprised of licensing the Company's intellectual properties for third-party use and wholesale sales of merchandise, including supplies and fixtures. Revenue for wholesale sales is recognized when control of the merchandise or fixtures is transferred to the customer, which generally occurs upon delivery to the customer. The license agreements provide the customer with highly interrelated rights that are not distinct in the context of the contract and therefore, have been accounted for as a single performance obligation and recognized as licensee sales occur. If the contract includes a guaranteed minimum, the minimum guarantee is recognized on a straight-line basis over the guarantee term until such time as royalties earned through licensee sales exceed the minimum guarantee. The Company classifies these guaranteed minimum contract liabilities as deferred revenue on the consolidated balance sheet.

The Company's international franchising segment includes the activities with franchisees who operate store locations in certain countries and includes development fees, sales-based royalties and merchandise, including supplies and fixture sales. The Company's obligations under the franchise agreements are ongoing and include operations and product development support and training, generally concentrated around initial store openings. These obligations are highly interrelated rights that are not distinct in the context of the contract and, therefore, have been accounted for as a single performance obligation and recognized as franchisee sales occur. If the contract includes an initial, one-time nonrefundable development fee, this fee is recognized on a straight-line basis over the term of the franchise agreement, which may extend for periods up to 25 years, or sooner if the agreement is terminated prior to the end of the term. The Company classifies these initial, one-time nonrefundable franchise fee contract liabilities as deferred

revenue on its consolidated balance sheet. Revenue from merchandise and fixture sales is recognized when control is transferred to the franchisee which generally occurs upon delivery.

The Company also incurs expenses directly related to the startup of new franchises, which may include finder's fees, legal and travel costs, expenses related to its ongoing support of the franchises and employee compensation. Accordingly, the Company's policy is to capitalize any finder's fee, an incremental cost, and expense all other costs as incurred. Additionally, the Company amortizes these capitalized costs into expense in the same pattern as the development fee's recording of revenue as described previously.

3. Leases

The majority of the Company's leases relate to retail stores and corporate offices. For leases with terms greater than 12 months, the Company records the related asset and obligation at the present value of lease payments over the term. Most new retail store leases have an original term of a five to ten-year base period and may include renewal options to extend the lease term beyond the initial base period. The extension periods are typically much shorter than the original lease term giving the Company's strategic decision to maintain a high level of lease optionality. Some leases also include early termination options, which can be exercised under specific conditions. Additionally, the Company may operate stores for a period of time on a month-to-month basis after the expiration of the lease term. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Additionally, certain leases contain incentives, such as construction allowances from landlords and/or rent abatements subsequent to taking possession of the leased property.

The table below presents certain information related to the lease costs for operating leases for the thirteen and twenty-six weeks ended July 31, 2021 and August 1, 2020 (in thousands).

	Thirteen weeks ended		Twenty-six weeks ended	
	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Operating lease costs	8,732	9,928	17,312	19,584
Variable lease costs	1,288	148	2,167	422
Short term lease costs	16	6	30	94
Total Operating Lease costs	<u>\$ 10,036</u>	<u>\$ 10,082</u>	<u>\$ 19,509</u>	<u>\$ 20,100</u>

Other information

The table below presents supplemental cash flow information related to leases for the thirteen and twenty-six weeks ended July 31, 2021 and August 1, 2020 (in thousands).

	Thirteen weeks ended		Twenty-six weeks ended	
	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Operating cash flows for operating leases	11,343	8,474	22,472	15,929

Operating cash flow for the second quarter and year-to-date fiscal 2021 exceeded expense recorded for the same periods, which is expected to continue for the remainder of fiscal 2021, as the Company's deferred rent obligations obtained during rent negotiations in fiscal 2020 are to be paid during fiscal 2021. The Company has approximately \$2.3 million remaining of rent deferrals to be paid in the remainder of fiscal 2021, whose liability is recorded in the Operating lease liability short term line of the Condensed Consolidated Balance Sheet.

As of July 31, 2021 and August 1, 2020, the weighted-average remaining operating lease term was 4.6 years and 5.0 years, respectively, and the weighted-average discount rate was 6.0% and 6.0%, respectively, for operating leases recognized on the Company's Condensed Consolidated Balance Sheets.

For the thirteen and twenty-six weeks ended July 31, 2021, the Company did not incur impairment charges against its right-of-use operating lease assets. For the thirteen and twenty-six weeks ended August 1, 2020, the Company incurred right-of-use asset impairment charges of \$1.2 million and \$3.6 million, respectively.

Undiscounted cash flows

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the operating lease liabilities recorded on the balance sheet (in thousands).

Operating Leases	
2021	18,450
2022	32,181
2023	26,296
2024	21,898
2025	16,287
Thereafter	20,612
Total minimum lease payments	135,724
Less: amount of lease payments representing interest	(17,822)
Present value of future minimum lease payments	117,902
Less: current obligations under leases	(28,019)
Long-term lease obligations	<u>\$ 89,883</u>

As of July 31, 2021, the Company had additional executed leases that had not yet commenced with operating lease liabilities of \$2.0 million. These leases are expected to commence in 2021 with lease terms ranging from one to three years.

4. Other Assets

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

	July 31, 2021	January 30, 2021	August 1, 2020
Prepaid occupancy (1)	\$ 1,494	\$ 1,367	\$ 23
Prepaid taxes (2)	85	473	424
Prepaid insurance	422	884	268
Prepaid gift card fees	1,168	1,291	1,225
Other (3)	5,672	6,096	3,460
Total	<u>\$ 8,841</u>	<u>\$ 10,111</u>	<u>\$ 5,400</u>

- (1) Prepaid occupancy consists of prepaid expenses related to non-lease components.
(2) Prepaid taxes consist of prepaid federal and state income tax and other taxes.
(3) Other consists primarily of prepaid expense related to IT maintenance contracts and software as a service.

Other non-current assets consist of the following (in thousands):

	July 31, 2021	January 30, 2021	August 1, 2020
Entertainment production asset	\$ 5,312	\$ 1,715	\$ 340
Deferred compensation	1,187	1,037	2,632
Other (1)	561	629	-
Total	<u>\$ 7,060</u>	<u>\$ 3,381</u>	<u>\$ 2,972</u>

- (1) Other consists primarily of deferred financing costs related to the Company's credit facility

5. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	July 31, 2021	January 30, 2021	August 1, 2020
Accrued wages, bonuses and related expenses	\$ 14,893	\$ 13,185	\$ 13,411
Sales and value added taxes payable	3,186	2,048	2,287
Accrued rent and related expenses (1)	1,111	1,993	114
Current income taxes payable	1,782	325	99
Total	<u>\$ 20,972</u>	<u>\$ 17,551</u>	<u>\$ 15,911</u>

(1) Accrued rent and related expenses consist of accrued costs associated with non-lease components.

6. Stock-based Compensation

On April 14, 2020, the Board of Directors (the "Board") of Build-A-Bear Workshop, Inc. (the "Company") adopted, subject to stockholder approval, the Build-A-Bear Workshop, Inc. 2020 Omnibus Incentive Plan (the "2020 Incentive Plan"). On June 11, 2020, at the Company's 2020 Annual Meeting of Stockholders (the "Annual Meeting"), the Company's stockholders approved the 2020 Incentive Plan. The 2020 Incentive Plan, which is administered by the Compensation and Development Committee of the Board (the "Compensation Committee", permits the grant of stock options (including both incentive and non-qualified stock options), stock appreciation rights, other stock-based awards, including restricted stock and restricted stock units, cash-based awards, and performance awards pursuant to the terms of the 2020 Incentive Plan. The 2020 Incentive Plan will terminate on April 14, 2030, unless terminated earlier by the Board. The number of shares of the Company's common stock authorized for issuance under the 2020 Incentive Plan is 1,000,000, plus shares of stock that remained available for issuance under the Build-A-Bear Workshop, Inc. 2017 Omnibus Incentive Plan (the "2017 Incentive Plan") at the time the 2020 Incentive Plan was approved by the Company's stockholders, and shares that are subject to outstanding awards made under the 2017 Incentive Plan that on or after April 14, 2020 may be forfeited, expire or be settled for cash.

For the thirteen weeks ended July 31, 2021 and August 1, 2020, Selling, general and administrative expense included stock-based compensation expense of \$0.8 million and \$0.5 million, respectively. For the twenty-six weeks ended July 31, 2021 and August 1, 2020, Selling, general and administrative expense included stock-based compensation expense of \$1.4 million and \$0.7 million, respectively. As of July 31, 2021, there was \$3.5 million of total unrecognized compensation expense related to unvested restricted stock and option awards which is expected to be recognized over a weighted-average period of 1.6 years.

The following table is a summary of the balances and activity for stock options for the twenty-six weeks ended July 31, 2021:

	Options	
	Shares	Weighted Average Exercise Price
Outstanding, January 30, 2021	805,701	\$ 9.96
Granted	-	-
Exercised	(48,092)	6.21
Forfeited	-	-
Canceled or expired	(26,711)	8.13
Outstanding, July 31, 2021	<u>730,898</u>	<u>\$ 10.28</u>

The following table is a summary of the balances and activity related to time-based and performance-based restricted stock for the twenty-six weeks ended July 31, 2021:

	<u>Time-Based Restricted Stock</u>		<u>Performance-Based Restricted Stock</u>	
	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding, January 30, 2021	931,172	\$ 3.26	336,441	\$ 5.03
Granted	143,755	9.46	53,095	8.24
Vested	(483,539)	3.23	(32,521)	8.60
Forfeited	(9,850)	6.35		
Canceled or expired	-	-	(50,735)	8.60
Outstanding, July 31, 2021	<u>581,538</u>	<u>\$ 4.77</u>	<u>306,280</u>	<u>\$ 3.56</u>

The total fair value of shares vested during the twenty-six weeks ended July 31, 2021 and August 1, 2020 was \$1.8 million and \$2.3 million, respectively.

The outstanding performance shares as of July 31, 2021 consist of the following:

	<u>Performance Shares</u>
Unearned shares subject to performance-based restrictions at target:	
2019 - 2021 consolidated pre-tax income growth objectives	95,811
2020 - 2022 consolidated liquidity and strategic performance objectives	89,168
2020 - 2022 consolidated earnings before interest and taxes (EBIT) objectives	68,206
2021 - 2023 consolidated, cumulative earnings before interest, taxes, depreciation and amortization (EBITDA) objectives	39,821
2021 - 2023 consolidated revenue growth objectives	13,274
Performance shares outstanding, July 31, 2021	<u>306,280</u>

7. Income Taxes

The Company's effective tax rate was 27.9% and 24.0% for the thirteen and twenty-six weeks ended July 31, 2021 compared to 0.5% and (7.6)% for the thirteen and twenty-six weeks ended August 1, 2020. The 2021 effective tax rate differed from the statutory rate of 21% primarily due to state income tax expense partially offset by the tax impact of equity awards vesting. While the Company is still in a full valuation allowance globally, it recorded tax expense on the pretax income earned in the first half of fiscal 2021 based on its projected current tax expense. The first half of fiscal 2020 was impacted by a \$3.3 million valuation allowance recorded on the beginning balance of the net deferred tax assets in certain jurisdictions, offset by \$0.8 million of benefit recognized as a result of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. In addition, no tax benefit was recorded on the first half pretax loss as a full valuation allowance was recorded globally.

8. Stockholders' Equity

The following table sets forth the changes in stockholders' equity (in thousands) for the thirteen weeks ended July 31, 2021 and August 1, 2020 (in thousands):

	For the thirteen weeks ended July 31, 2021					For the thirteen weeks ended August 1, 2020				
	Common	APIC	AOCI	Retained	Total	Common	APIC	AOCI	Retained	Total
	stock	(1)	(2)	earnings		stock	(1)	(2)	earnings	
Balance, beginning	\$ 163	\$ 73,024	\$ (12,532)	\$ 17,322	\$ 77,977	\$ 155	\$ 71,491	\$ (11,909)	\$ 8,720	\$ 68,457
Issuance of restricted/performance stock					-	1	(1)			0
Stock-based compensation		370			370		417			417
Shares withheld in lieu of tax withholdings					-					-
Other	(3)	3			-	(1)	(1)	1	(1)	(1)
Other comprehensive income (loss)			(47)		(47)			(429)		(429)
Net income (loss)				6,835	6,835				(13,909)	(13,909)
Balance, ending	<u>\$ 160</u>	<u>\$ 73,397</u>	<u>\$ (12,579)</u>	<u>\$ 24,157</u>	<u>\$ 85,135</u>	<u>\$ 156</u>	<u>\$ 71,906</u>	<u>\$ (12,339)</u>	<u>\$ (5,188)</u>	<u>\$ 54,535</u>

(1) - Additional paid-in capital ("APIC")

(2) - Accumulated other comprehensive income (loss) ("AOCI")

	For the twenty-six weeks ended July 31, 2021					For the twenty-six weeks ended August 1, 2020				
	Common	APIC	AOCI	Retained	Total	Common	APIC	AOCI	Retained	Total
	stock	(1)	(2)	earnings/(deficit)		stock	(1)	(2)	earnings/(deficit)	
Balance, beginning	\$ 159	\$ 72,822	\$ (12,615)	\$ 6,942	\$ 67,308	\$ 152	\$ 70,633	\$ (12,079)	\$ 29,925	\$ 88,631
Issuance of restricted/performance stock	5	574			579	4	495			499
Stock-based compensation		921			921		892			892
Shares withheld in lieu of tax withholdings	(1)	(922)			(923)	(1)	(114)			(115.00)
Other	(3)	2			(1)	1	(1)			0
Other comprehensive income (loss)			36		36			(259)		(259)
Net loss				17,215	17,215				(35,113)	(35,113)
Balance, ending	<u>\$ 160</u>	<u>\$ 73,397</u>	<u>\$ (12,579)</u>	<u>\$ 24,157</u>	<u>\$ 85,135</u>	<u>\$ 156</u>	<u>\$ 71,906</u>	<u>\$ (12,339)</u>	<u>\$ (5,188)</u>	<u>\$ 54,535</u>

(1) - Additional paid-in capital ("APIC")

(2) - Accumulated other comprehensive income (loss) ("AOCI")

9. Income per Share

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

	Thirteen weeks ended		Twenty-six weeks ended	
	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
NUMERATOR:				
Net income (loss)	\$ 6,835	\$ (13,909)	\$ 17,215	\$ (35,113)
DENOMINATOR:				
Weighted average number of common shares outstanding - basic	15,398,406	14,999,786	15,230,215	14,936,541
Dilutive effect of share-based awards:	713,181	-	728,305	-
Weighted average number of common shares outstanding - dilutive	16,111,587	14,999,786	15,958,520	14,936,541
Basic income (loss) per common share attributable to Build-A-Bear Workshop, Inc. stockholders	\$ 0.44	\$ (0.93)	\$ 1.13	\$ (2.35)
Diluted income (loss) per common share attributable to Build-A-Bear Workshop, Inc. stockholders	\$ 0.42	\$ (0.93)	\$ 1.08	\$ (2.35)

In calculating the diluted income per share for the thirteen and twenty-six weeks ended July 31, 2021, options to purchase 63,877 and 246,534 shares of common stock, respectively, that were outstanding at the end of the period were not included in the computation of diluted income per share due to their anti-dilutive effect. For the thirteen and twenty-six weeks ended August 1, 2020, options to purchase 833,353 and 862,846 shares of common stock, respectively, that were outstanding at the end of the period were not included in the computation of diluted income per share due to their anti-dilutive effect.

10. Comprehensive Income (Loss)

The difference between comprehensive income or loss and net income or loss is the result of foreign currency translation adjustments on the balance sheets of subsidiaries whose functional currency is not the U.S. Dollar. The accumulated other comprehensive income (loss) balance at July 31, 2021 and August 1, 2020 was comprised entirely of foreign currency translation. For the thirteen weeks ended July 31, 2021 and August 1, 2020, the Company had no reclassifications out of accumulated other comprehensive income (loss).

11. Segment Information

The Company's operations are conducted through three operating segments consisting of direct-to-consumer ("DTC"), commercial and international franchising. The DTC segment includes the operating activities of corporately-managed locations and other retail delivery operations in the United States (U.S.), Canada, Ireland and the United Kingdom ("U.K."), including the Company's e-commerce sites and temporary stores. The commercial segment includes the Company's transactions with other businesses, mainly comprised of licensing the Company's intellectual properties for third-party use and wholesale activities. The international franchising segment includes the licensing activities of the Company's franchise agreements with store locations in Asia, Australia, the Middle East, Africa, and South America. The operating segments have discrete sources of revenue, different capital structures and different cost structures. These operating segments represent the basis on which the Company's chief operating decision maker regularly evaluates the business in assessing performance, determining the allocation of resources and the pursuit of future growth opportunities. Accordingly, the Company has determined that each of its operating segments represent a reportable segment. The three reportable segments follow the same accounting policies used for the Company's consolidated financial statements.

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

	Direct-to- Consumer	Commercial	International Franchising	Total
Thirteen weeks ended July 31, 2021				
Net sales to external customers	\$ 91,289	\$ 2,946	\$ 493	\$ 94,728
Income before income taxes	8,032	1,348	93	9,473
Capital expenditures	1,062	-	-	1,062
Depreciation and amortization	2,986	7	-	2,993
Thirteen weeks ended August 1, 2020				
Net sales to external customers	\$ 39,339	\$ 865	\$ 149	\$ 40,353
(Loss) Income before income taxes	(14,145)	239	(77)	(13,983)
Capital expenditures	529	-	-	529
Depreciation and amortization	3,246	8	-	3,254
Twenty-six weeks ended July 31, 2021				
Net sales to external customers	\$ 180,501	\$ 5,055	\$ 865	\$ 186,421
Income (loss) before income taxes	20,513	2,166	(25)	22,654
Capital expenditures	1,553	-	-	1,553
Depreciation and amortization	6,108	12	0	6,120
Twenty-six weeks ended August 1, 2020				
Net sales to external customers	\$ 84,986	\$ 1,198	\$ 793	\$ 86,977
(Loss) Income before income taxes	(32,515)	194	(326)	(32,647)
Capital expenditures	3,378	-	-	3,378
Depreciation and amortization	6,696	15.00	-	6,711
Total Assets as of:				
July 31, 2021	\$ 247,833	\$ 7,026	\$ 9,416	\$ 264,275
August 1, 2020	253,684	6,852	7,727	268,263

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. Revenues are recognized in the geographic areas based on the location of the customer or franchisee. The following schedule is a summary of the Company's sales to external customers and long-lived assets by geographic area (in thousands):

	North America (1)	Europe (2)	Other (3)	Total
Thirteen weeks ended July 31, 2021				
Net sales to external customers	\$ 82,179	\$ 12,095	\$ 454	\$ 94,728
Thirteen weeks ended August 1, 2020				
Net sales to external customers	\$ 34,985	\$ 5,141	\$ 227	\$ 40,353
Twenty-six weeks ended July 31, 2021				
Net sales to external customers	\$ 167,932	\$ 17,504	\$ 985	\$ 186,421
Property and equipment, net	44,536	3,625	-	48,161
Twenty-six weeks ended August 1, 2020				
Net sales to external customers	\$ 74,636	\$ 11,806	\$ 535	\$ 86,977
Property and equipment, net	53,735	4,350	-	58,085

For purposes of this table only:

(1) North America includes corporately-managed locations in the United States and Canada.

(2) Europe includes corporately-managed locations in the U.K. and Ireland.

(3) Other includes franchise businesses outside of North America and Europe and includes a corporately-managed location in China that closed in May 2021.

12. Contingencies

In the normal course of business, the Company is subject to legal proceedings, government inquiries and claims, and other commercial disputes. If one or more of these matters has an unfavorable resolution, it is possible that the results of operations, liquidity or financial position of the Company could be materially affected in any particular period. The Company accrues a liability for these types of contingencies when it believes that it is both probable that a liability has been incurred and that it can reasonably estimate the amount of the loss. Gain contingencies are recorded when the underlying uncertainty has been settled.

Assessments made by the U.K. customs authority in 2012 were appealed by the Company, which has paid the disputed duty, strictly under protest, pending the outcome of the continuing dispute, and this is included in receivables, net in the DTC segment. The U.K. customs authority contested the Company's appeal. Rulings by the trial court in November 2019 and upper tribunal in March 2021 held that duty was due on some, but not all, of the products at issue. The Company petitioned the Court of Appeals directly for leave to proceed with an appeal and are awaiting the Court's determination. The Company maintains a provision against the related receivable, based on a current evaluation of collectability, using the latest facts available in the dispute. As of July 31, 2021, the Company had a gross receivable balance of \$4.6 million and a reserve of \$3.7 million, leaving a net receivable of \$0.9 million. The Company believes that the outcome of this dispute will not have a material adverse impact on the results of operations, liquidity or financial position of the Company.

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

Cautionary Notice Regarding Forward-Looking Statements

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties, and we undertake no obligation to update these statements except as required by the federal securities laws. Our actual results may differ materially from the results discussed in the forward-looking statements. These risks and uncertainties include, without limitation, those detailed under the caption "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 30, 2021, as filed with the SEC, and include the following:

- our business, operations and financial results have been and will continue to be negatively affected by the pandemic including the temporary closure of retail store locations or occupancy restrictions, which may be reinstated, all of which continues to fluctuate on a localized basis, presenting ongoing uncertainty relating to the anticipated duration and scope of the pandemic in areas in which we operate, as well as the restrictions imposed by federal, state, and local governments in response to the pandemic;
- any sustained decline in general global economic conditions, caused by the COVID-19 pandemic or otherwise, could lead to disproportionately reduced consumer demand for our products, including those sold by third-party retailers, which represent relatively discretionary spending, would cause an adverse effect on our liquidity and profitability;
- we rely on a few global supply chain vendors to supply substantially all of our merchandise, and significant price increases or disruption in their ability to deliver merchandise, such as was experienced due to periodic COVID-related factory closures, have impaired, and may in the future more significantly impair, our ability to source products and supply inventory to our stores and have previously caused us and in the future may cause us to carry higher levels of inventory than we have on a historical basis;
- we depend upon the shopping malls and tourist locations in which our corporately-managed stores and third-party retail locations are situated to attract guests and a decline in consumer traffic, or if such consumer traffic does not return to levels that we saw prior to the pandemic, or if such return is not sustained due to the spikes in the COVID-19 infection rates, could adversely affect our financial performance and profitability. In addition, some of our third-party retailers may be subject to different market conditions as a result of the pandemic;
- in connection with the reopening of our stores, we have modified our interactive shopping experience in order to comply with recommended social distancing and sanitation practices. These modifications could have a negative impact on the appeal of our interactive shopping experience, reduce guest traffic to our stores, and decrease the volume of guests that may be able to enjoy our interactive shopping experience which could adversely impact our ability to operate our stores profitably;
- we may experience store closures in shopping malls and tourist locations and other impacts to our business resulting from civil disturbances;
- we believe the hands-on and interactive nature of our store and high touch service model result in guests forming an emotional connection with our brand, which in turn contributes to the success of our ecommerce platform and drives repeat customer transactions; if the revised experiences we are offering do not create the same guest affinity for our brand, it may adversely affect the value of our brand;
- birthdays and other special occasions have historically been a key driver for store traffic, and our inability to host such events due to pandemic restrictions or if our guests are not willing to hold such events at our stores may adversely affect store performance and our overall profitability;
- if we are unable to generate interest in and demand for our interactive retail experience and products, including being able to adjust that experience consistent with our guests' expectations as the general retail economy emerges from the restrictions imposed by the pandemic, and to otherwise identify and respond to consumer preferences in a timely manner, our sales, financial condition and profitability could be adversely affected;
- some of our licensed products are based on feature films with planned theatrical launches; given that the pandemic has negatively impacted theaters and delayed movie releases, the portion of our business associated with these films has been and could continue to be negatively affected;
- we may be unable to leverage the flexibility within our existing real estate portfolio to capitalize on future real estate opportunities over the near and intermediate term as our leases come up for renewal, and there may be other costs and risks related to a brick-and-mortar retail store model such as a lack of available retail store sites on terms acceptable to us as a result;
- consumer interests change rapidly and our success depends on the ongoing effectiveness of our marketing and online initiatives to build consumer affinity for our brand and drive consumer demand for key products and services;
- we are subject to a number of risks related to disruptions, failures or security breaches of our information technology infrastructure. If we improperly obtain or are unable to protect our data or violate privacy or security laws such as the GDPR or the General Data Protection Regulation, the CCPA or the California Privacy Rights Act (as adopted), or expectations, we could be subject to liability as well as damage to our reputation;

- we may not be able to operate successfully if we lose key personnel, are unable to hire qualified additional personnel, or experience turnover of our management team;
- we are subject to risks associated with technology and digital operations;
- we may not be able to evolve our store locations over time to align with market trends, successfully diversify our store models and formats in accordance with our strategic goals or otherwise effectively manage our overall portfolio of stores which could adversely affect our ability to grow and could significantly harm our profitability;
- our company-owned distribution center which services the majority of our stores in North America and our third-party distribution center providers used in the western United States and Europe may experience disruptions in their ability to support our stores or may operate inefficiently;
- our merchandise is manufactured by foreign manufacturers and we transact business in various foreign countries, and the availability and costs of our products, as well as our product pricing, may be negatively affected by risks associated with international manufacturing and trade, tariffs and foreign currency fluctuations;
- if we are unable to effectively manage our international franchises, attract new franchises or if the laws relating to our international franchises change, our growth and profitability could be adversely affected and we could be exposed to additional liability;
- we may not be able to operate our international corporately-managed locations profitably;
- we may fail to renew, register or otherwise protect our trademarks or other intellectual property and may be sued by third parties for infringement or, misappropriation of their proprietary rights, which could be costly, distract our management and personnel and which could result in the diminution in value of our trademarks and other important intellectual property;
- we may suffer negative publicity or be sued if the manufacturers of our merchandise or of Build-A-Bear branded merchandise sold by our licensees ship any products that do not meet current safety standards or production requirements or if such products are recalled or cause injuries;
- we may suffer negative publicity or be sued if the manufacturers of our merchandise violate labor laws or engage in practices that consumers believe are unethical;
- our profitability could be adversely affected by fluctuations in petroleum products prices;
- our business may be adversely impacted at any time by a significant variety of competitive threats;
- we may suffer negative publicity or a decrease in sales or profitability if the products from other companies that we sell in our stores do not meet our quality standards or fail to achieve our sales expectations;
- we may be unsuccessful in engaging in various strategic transactions, which may negatively affect our financial condition and profitability;
- fluctuations in our quarterly results of operations could cause the price of our common stock to substantially decline;
- the market price of our common stock is subject to volatility, which could in turn attract the interest of activist shareholders; and
- our certificate of incorporation and bylaws and Delaware law contain provisions that may prevent or frustrate attempts to replace or remove our current management by our stockholders, even if such replacement or removal may be in our stockholders' best interests.

Overview

We are the only global company that offers an interactive “make your own stuffed animal” retail entertainment experience under the Build-A-Bear Workshop brand, in which guests participate in the stuffing, dressing, accessorizing and naming of their own teddy bears and other stuffed animals. As of July 31, 2021, we had 352 corporately-managed stores globally and had 74 internationally franchised stores under the Build-A-Bear Workshop brand. In addition to these stores, we sell products on our company-owned e-commerce sites, our franchisees sell products through sites that they manage and other third parties sell products on their sites under wholesale agreements.

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

- Direct-to-Consumer (“DTC”) – Corporately-managed retail stores located in the U.S., Canada, the U.K., and Ireland and two e-commerce sites;
- Commercial – Transactions with other businesses, mainly comprised of wholesale product sales to third-party retailers and licensing our intellectual property, including entertainment properties, for third-party use; and
- International franchising – Royalties as well as development fees and the sales from products and fixtures from other international operations under franchise agreements.

Selected financial data attributable to each segment for the thirteen and twenty-six weeks ended July 31, 2021 and August 1, 2020 are set forth in the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

COVID-19 and Business Update

At the beginning of fiscal 2021, our United States store portfolio was open and operating while our stores in the United Kingdom and Canada remained temporarily closed. In April 2021, stores in the United Kingdom reopened as the government lifted lockdown restrictions resulting in almost all of our stores operating as the end of the 2021 first fiscal quarter with the remaining stores in the United Kingdom and Ireland opening in the second fiscal quarter and ending the quarter with all stores open. The majority of our Canadian stores remained temporarily closed to begin the second quarter with the majority reopening in June 2021 and with all stores ending the second fiscal quarter open. Our year-over-year results discussed below are, and we expect for the remainder of 2021 will be, impacted by prior year store closures and operating hour reductions as a result of the pandemic.

While we expect to see continued evolution of consumer shopping patterns and preferences in the balance of the year, we believe we have built the infrastructure to respond with greater agility to deal with potential uncertainty and we expect to deliver growth in total revenues and profit in fiscal 2021 compared to fiscal 2020 and fiscal 2019. While we believe that we have seen benefit from pandemic-driven factors such as pent-up demand and stimulus packages, we believe that the initiatives and investments that were put in place prior to the pandemic, and in many cases accelerated during the pandemic, are driving improved results, which we expect to continue. We remain focused on our strategic priorities for the year which are centered primarily on three key areas:

- Further acceleration of our digital transformation including content and entertainment initiatives. We are intent on building our business with more effective use of technology and improved and enhanced fulfillment capabilities while leveraging our expanded digital platforms to inform and drive marketing and content efforts. We believe that our multi-year sustained strong trend in e-commerce demand trajectory that we have achieved, demonstrates the progress we continue to make in this area.
- Rapidly evolving our retail capabilities and experiences, including omnichannel, and significantly expanded e-commerce capacity. Our stores in North America and in the United Kingdom were predominantly open throughout the 2021 second quarter. While traffic continued to trail historical levels, we drove higher transaction values across all geographies compared to 2019. Our results included strong sales growth in many of our tourist locations which have been a strategic priority in the evolution of our real estate portfolio. In addition, we continue to leverage the strong strategic optionality that we have maintained across our real estate portfolio with a substantial portion of our leases having a natural event in the next 3 years giving us great flexibility to optimize our corporately-managed locations. Our goal is to maintain a strong store base that contributes to our overarching strategic objectives including supporting our expanded omnichannel capabilities. We also have seen some stability return to our third-party retail model which includes workshops at Great Wolf Lodge, Beaches Family Resorts and Carnival Cruise Lines, which recently began a staggered return to operations. The third-party retail model allows us to expand in a cost efficient manner with each partner typically funding the capital investment to open their locations while also managing the operation of the store, inventory and staffing.
- Maintaining a solid financial position including a strong balance sheet to support our business and make strategic investments designed to drive further growth.

Retail Stores:

The table below sets forth the number of Build-A-Bear Workshop corporately-managed stores in North America, Europe and Asia for the periods presented:

	Twenty-six weeks ended							
	July 31, 2021				August 1, 2020			
	North America	Europe	Asia	Total	North America	Europe	Asia	Total
Beginning of period	305	48	1	354	316	55	1	372
Opened	2	-	-	2	1	-	-	1
Closed	(2)	(1)	(1)	(4)	(10)	(4)	-	(14)
End of period	305	47	-	352	307	51	1	359

As of July 31, 2021, 40% of our corporately-managed stores were in an updated Discovery format. We also expect to close certain stores in accordance with natural lease events as an ongoing part of our real estate management and day-to-day operational plans. The future of our retail store fleet may include expansion into more non-traditional locations, including concourse format shops and by expansion in other locations outside traditional malls.

International Franchise Stores:

Our first franchisee location was opened in November 2003. All franchised stores have similar signage, store layout, merchandise characteristics and guest experience as our corporately-managed stores. As of July 31, 2021, we had six master franchise agreements, which typically grant franchise rights for a particular country or group of countries, covering an aggregate of 11 countries.

The number of franchised stores opened and closed for the periods presented below are summarized as follows:

	Twenty-six weeks ended	
	July 31, 2021	August 1, 2020
Beginning of period	71	92
Opened	5	4
Closed	(2)	(18)
End of period	74	78

In the ordinary course of business, we anticipate signing additional master franchise agreements in the future and terminating other such agreements. We source fixtures and other supplies for our franchisees from China which significantly reduces the capital and lowers the expenses required to open franchises. We are leveraging new formats that have been developed for our corporately-managed locations such as concourses and shop-in-shops with our franchisees.

Results of Operations

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

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

	Thirteen weeks ended		Twenty-six weeks ended	
	July 31, 2021	August 1, 2020	July 31, 2021	August 1, 2020
Revenues:				
Net retail sales	96.4%	97.5%	96.8%	97.7%
Commercial revenue	3.1	2.1	2.7	1.4
International franchising	0.5	0.4	0.5	0.9
Total revenues	100.0	100.0	100.0	100.0
Costs and expenses:				
Cost of merchandise sold - retail (1)	46.7	76.9	47.0	74.8
Store asset impairment	-	5.2	-	8.1
Cost of merchandise sold - commercial (1)	43.7	44.7	43.3	44.0
Cost of merchandise sold - international franchising (1)	74.0	87.2	73.2	48.5
Total cost of merchandise sold	46.8	81.3	47.0	82.1
Consolidated gross profit	53.2	18.7	53.0	17.9
Selling, general and administrative	43.2	53.3	40.9	55.5
Interest expense, net	0.0	0.0	0.0	0.0
Income (loss) before income taxes	10.0	(34.7)	12.2	(37.5)
Income tax expense	2.8	(0.2)	2.9	2.8
Net income (loss)	7.2	(34.5)	9.2	(40.4)
Retail Gross Margin (2)	53.3%	23.1%	53.0%	25.2%

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

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

Thirteen weeks ended July 31, 2021 compared to thirteen weeks ended August 1, 2020

Total revenues. Consolidated revenues increased 134.7%, driven by a 134.9% increase in North America and a 135.3% increase in Europe. The increase in North America and Europe was primarily driven by increased retail store operating days compared to the same period in the prior year which saw temporary store closures due to the pandemic.

Net retail sales for the thirteen weeks ended July 31, 2021 were \$91.3 million, compared to \$39.3 million for the thirteen weeks ended August 1, 2020, an increase of \$52.0 million, or 132.1% compared to the prior year period. The components of this increase are as follows (dollars in millions):

	Thirteen weeks ended July 31, 2021
Impact from:	
Existing stores	\$ 55,454
E-commerce	(5,217)
New stores	913
Store closures	(357)
Gift card breakage	366
Foreign currency translation	613
Deferred revenue estimates	178
Total Change	<u>\$ 51,950</u>

The retail revenue increase was primarily the result of the increase in store operating days of corporately-managed stores.

Commercial revenue was \$2.9 million for the thirteen weeks ended July 31, 2021 compared to \$0.9 million for the thirteen weeks ended August 1, 2020. The \$2.0 million increase is the result of increased sales volume from our commercial customers as some stability returned to our third-party retail model.

International franchising revenue was \$0.5 million for the thirteen weeks ended July 31, 2021 compared to \$0.1 million for the thirteen weeks ended August 1, 2020. The \$0.4 million increase is primarily due to temporary closures of stores in 2020 due to mandated government restrictions due to the pandemic.

Retail gross margin. Retail gross margin dollars increased \$39.5 million to \$48.6 million compared to the thirteen weeks ended August 1, 2020. The retail gross margin rate increased 3,010 basis points primarily driven by an increase in corporately-managed retail sales, increased leverage of fixed occupancy costs as a result of rent negotiations during the prior fiscal year, and expansion of merchandise margin.

Selling, general and administrative. Selling, general and administrative (SG&A) expenses were \$40.9 million, or 43% of consolidated revenue, for the thirteen weeks ended July 31, 2021, compared to \$21.5 million, or 53% of consolidated revenue, for the thirteen weeks ended August 1, 2020. The increase in overall expense was primarily due to higher labor costs given the re-opening of our store base and the Company recording full corporate salaries in 2021 as opposed to the prior year when pandemic-related cost containment initiatives included temporary wage reductions. Additionally, the change reflects an increase in variable costs driven by sales growth initiatives inclusive of higher marketing spend and funding of performance incentive programs.

Interest expense (income), net. Interest expense was \$8,000 for the thirteen weeks ended July 31, 2021 compared to interest income of \$7,000 for the thirteen weeks ended August 1, 2020.

Benefit/Provision for income taxes. Income tax expense was \$2.6 million with a tax rate of 27.9% for the thirteen weeks ended July 31, 2021 compared to a benefit of less than \$0.1 million with a tax rate of 0.5% for the thirteen weeks ended August 1, 2020. In the second quarter of fiscal 2021 the effective tax rate differed from the statutory rate of 21% primarily due to state income tax expense partially offset by the tax impact of equity awards vesting. While the Company is still in a full valuation allowance globally, it recorded tax expense on the pretax income earned in the first quarter of fiscal 2021 based on its projected current tax expense. In the second quarter of fiscal 2020, the effective tax rate differed from the statutory rate of 21% primarily due to no tax benefit being recorded on the current period pretax loss as a full valuation allowance has now been recorded globally.

Twenty-six weeks ended July 31, 2021 compared to twenty-six weeks ended August 1, 2020

Total revenues. Consolidated revenues increased 114.3%, including a 125.0% increase in North America and a 48.3% increase in Europe. The increase in North America and Europe was primarily driven by increased retail store operating days compared to the same period in the prior year which saw temporary store closures due to the pandemic and e-commerce sales.

Net retail sales for the twenty-six weeks ended July 31, 2021 were \$180.5 million, compared to \$85.0 million for the twenty-six weeks ended August 1, 2020, an increase of \$95.5 million, or 112.4% compared to the prior year period. The components of this increase are as follows (dollars in millions):

	Twenty-six weeks ended July 31, 2021
Impact from:	
Existing stores	\$ 90,858
E-commerce	2,066
New stores	1,375
Store closures	(1,140)
Gift card breakage	802
Foreign currency translation	1,237
Deferred revenue estimates	317
Total Change	<u>\$ 95,515</u>

The retail revenue increase was primarily the result of the increase in store operating days of corporately-managed stores and consolidated e-commerce sales.

Commercial revenue was \$5.1 million for the twenty-six weeks ended July 31, 2021 compared to \$1.2 million for the twenty-six weeks ended August 1, 2020. The \$3.9 million increase is the result of increased sales volume from our commercial customers as a result of the prior year effect of the pandemic on third-party retail locations serviced by our commercial customers.

International franchising revenue was \$0.9 million for the twenty-six weeks ended July 31, 2021 compared to \$0.8 million for the twenty-six weeks ended August 1, 2020. The \$0.1 million increase is primarily due to temporary closures of stores due to mandated government restrictions in 2020 due to the pandemic.

Retail gross margin. Retail gross margin dollars increased \$74.3 million to \$95.7 million compared to the twenty-six weeks ended August 1, 2020. The retail gross margin rate increased 2,785 basis points primarily driven by an increase in corporately-managed retail sales, a decrease in fixed occupancy costs recorded as a result of rent negotiations during the prior fiscal year, and expansion of merchandise margin.

Selling, general and administrative. SG&A expenses were \$76.2 million, or 41% of consolidated revenue, for the twenty-six weeks ended July 31, 2021, compared to \$48.2 million, or 55% of consolidated revenue, for the twenty-six weeks ended August 1, 2020. The increase in overall expense was primarily due to higher labor costs given the re-opening of our store base and the Company recording full corporate salaries for the thirteen weeks ended July 31, 2021 as opposed to the prior year when pandemic-related cost containment initiatives included temporary wage reductions. Additionally, the change reflects an increase in variable costs driven by sales growth initiatives inclusive of higher marketing spend and funding of performance incentive programs.

Interest expense (income), net. Interest expense was \$13,000 for the twenty-six weeks ended July 31, 2021 compared to interest income of \$4,000 for the twenty-six weeks ended August 1, 2020.

Benefit/Provision for income taxes. Income tax expense was \$5.4 million with a tax rate of 24.0% for the twenty-six weeks ended July 31, 2021 compared to \$2.5 million with a tax rate (7.6)% of for the twenty-six weeks ended August 1, 2020. In the first half of fiscal 2021, the effective tax rate differed from the statutory rate of 21% primarily due to state income tax expense partially offset by the tax impact of equity awards vesting. In the first half of fiscal 2020, the effective tax rate differed from the statutory rate of 21% primarily due to no tax benefit being recorded on the current period pretax loss as a full valuation allowance has now been recorded globally. In addition, the first half of fiscal 2020 was impacted by the \$3.3 million valuation allowance recorded on the beginning balance of the net deferred tax assets in certain jurisdictions, offset by \$0.8 million of benefit recognized as a result of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act.

Seasonality and Quarterly Results

Our operating results for one period may not be indicative of results for other periods, and may fluctuate significantly because of a variety of factors, including, but not limited to: (1) changes in general economic conditions (including as a result of the pandemic) and consumer spending patterns; (2) changes in store operations in response to the pandemic apart from its effect on the general economy, including temporary store closures required by local governments; (3) increases or decreases in our existing store and e-commerce sales; (4) fluctuations in the profitability of our stores; (5) the timing and frequency of the sales of licensed products tied to major theatrical releases (including the cancellation or delay of such releases due to the pandemic) and our marketing initiatives, including national media and other public relations events; (6) changes in foreign currency exchange rates; (7) the timing of new store openings, closings, relocations and remodeling and related expenses; (8) changes in consumer preferences; (9) the effectiveness of our inventory management; (10) the actions of our competitors or mall anchors and co-tenants; (11) seasonal shopping patterns and holiday and vacation schedules; (12) disruptions in store operations due to civil unrest; and (13) weather conditions.

The timing of store closures, relocations, remodels and openings (and re-openings) may result in fluctuations in quarterly results based on the revenues and expenses associated with each store location. Expenses related to store closings are typically incurred in stages: when the decision is made to close the store typically associated with a lease event such as an expiration or lease triggered clause; when the closure is communicated to store associates; and at the time of closure. We typically incur most preopening costs for a new store in the three months immediately preceding the store's opening.

Because our retail operations include toy products which have sales that historically peak in relation to the holiday season as part of our revenue model, our sales have historically been highest in our fourth quarter. The timing of holidays and school vacations can impact our quarterly results. We cannot provide assurance that this will continue to be the case. In addition, for accounting purposes, the quarters of each fiscal year consist of 13 weeks, although we will have a 14-week quarter approximately once every six years. For example, the 2014 fiscal fourth quarter had 14 weeks.

Liquidity and Capital Resources

As of July 31, 2021, we had a consolidated cash balance of \$51.1 million, approximately 85% of which was domiciled within the United States. Historically, our cash requirements have been primarily for the relocation and remodeling of existing stores in our new design, opening of new stores, investments in information technology infrastructure and working capital. Over the past several years, we have met these requirements through capital generated from cash flow provided by operations.

A summary of our operating, investing and financing activities is shown in the following table (dollars in thousands):

	Twenty-six weeks ended	
	July 31, 2021	August 1, 2020
Net cash provided by operating activities	\$ 18,394	\$ 1,910
Net cash used in investing activities	(1,553)	(3,378)
Net cash used in financing activities	(625)	(114)
Effect of exchange rates on cash	80	123
Increase (decrease) in cash, cash equivalents, and restricted cash	<u>\$ 16,296</u>	<u>\$ (1,459)</u>

Operating Activities. Cash provided by operating activities increased \$16.5 million for the twenty-six weeks ended July 31, 2021, as compared to the twenty-six weeks ended August 1, 2020. This increase in cash from operating activities was primarily driven by increased retail store operating days at corporately-managed stores and sales volume to commercial customers resulting in higher net income offset by an increase cash spend on operating leases with rent deferral paybacks, an increase in cash spend on accounts payable which we deferred in the prior fiscal year as part of cash preservation measures, and an increase in prepaid and other assets for spend related to entertainment production.

Investing Activities. Cash used in investing activities decreased \$1.8 million for the twenty-six weeks ended July 31, 2021 as compared to the twenty-six weeks ended August 1, 2020. This decrease in cash from investing activities was primarily driven by timing of planned capital expenditures.

Financing Activities. Cash used in financing activities increased \$0.5 million for the twenty-six weeks ended July 31, 2021, as compared to the twenty-six weeks ended August 1, 2020. This decrease in cash from financing activities was driven by increased stock-based compensation vesting resulting in the need for more shares withheld for taxes offset by proceeds from stock option exercises.

Capital Resources: We have a revolving credit and security agreement with PNC Bank, as agent, that provides for a secured revolving loan in aggregate principal of up to \$25.0 million, subject to a borrowing base formula. Borrowings under the agreement bear interest at (a) a base rate determined under the agreement, or (b) the borrower's option, at a rate based on LIBOR, plus in either case a margin based on average undrawn availability as determined in accordance with the agreement. As of July 31, 2021, our borrowing base was slightly more than \$12.4 million. As a result of a \$750,000 letter of credit against the line of credit at the end of the fiscal 2021 second quarter, approximately \$11.7 million was available for borrowing. We had no outstanding borrowings as of the end of July 31, 2021.

Most of our corporately-managed retail stores are located within shopping malls and all are operated under leases classified as operating leases. Our leases in North America have shifted to shorter term leases, many of which include variable rent structures, to provide flexibility in aligning stores with market trends. Our leases typically require us to pay personal property taxes, our pro rata share of real property taxes of the shopping mall, our own utilities, repairs and maintenance in our store, a pro rata share of the malls' common area maintenance and, in some instances, merchant association fees and media fund contributions. Many new leases contain incentives to help defray the cost of construction of a new store. Typically, a portion of the incentive must be repaid to the landlord if we choose to terminate the lease before the end of its initial term. In addition, some of these leases contain various restrictions relating to change in 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. Rents are invoiced monthly and paid in advance.

Our leases in the U.K. and Ireland typically have terms of ten years and generally contain a provision whereby every fifth year the rental rate can be adjusted to reflect the current market rates. The leases typically provide the lessee with the first right for renewal at the end of the lease. Real estate taxes also change according to government time schedules to reflect current market rental rates for the locations we lease. Rents are invoiced monthly or quarterly and paid in advance.

Capital spending through the twenty-six weeks ended July 31, 2021 totaled \$1.6 million and we expect to spend approximately \$10 million on capital expenditures for fiscal 2021.

Off-Balance Sheet Arrangements

None.

Inflation

We do not believe that inflation has had a material adverse impact on our business or operating results during the periods presented, however, we do expect cost inflation impact in the remainder of fiscal 2021. We cannot provide an estimate or range of impact such cost inflations may have on our results of operations.

Critical Accounting Estimates

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

We believe application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates, including those related to long-lived assets, leases, revenue recognition and income taxes, are reevaluated on an ongoing basis, and adjustments are made when facts and circumstances dictate a change.

Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates. Our critical accounting policies and estimates are discussed in and should be read in conjunction with our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (SEC) on April 15, 2021, which includes audited consolidated financial statements for our 2020 and 2019 fiscal years. There have been no material changes to the critical accounting estimates disclosed in the 2020 Form 10-K.

Recent Accounting Pronouncements

See Note 1 to the Condensed Consolidated Financial Statements — Basis of Presentation — Recent Accounting Pronouncements – Adopted in the Current Year

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to our Quantitative and Qualitative Disclosures About Market Risk as disclosed in our Annual Report on Form 10-K for the year ended January 30, 2021 as filed with the SEC on April 15, 2021.

Item 4. Controls and Procedures.

Our management, with the participation of our President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and is accumulated and communicated to management, including our certifying officers, as appropriate to allow timely decisions regarding required disclosure. Based on the foregoing evaluation, our management, including the President and Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of July 31, 2021, the end of the period covered by this Quarterly Report.

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

Changes in Internal Control Over Financial Reporting. The Company’s management, with the participation of the Company’s President and Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company’s internal control over financial reporting 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. There have been no changes in our internal control over financial reporting during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION**Item 1A. Risk Factors**

There have been no material changes to our risk factors as disclosed in our Annual Report on Form 10-K for the year ended January 30, 2021 as filed with the SEC on April 15, 2021.

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 Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
May 2, 2021 - May 29, 2021	-	-	-	\$-
May 28, 2021 - July 3, 2021	-	-	-	-
July 4, 2021 - July 31, 2021	-	-	-	-
Total	-	-	-	-

Item 6. Exhibits

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

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated April 3, 2000 between Build-A-Bear Workshop, L.L.C. and the Registrant (incorporated by reference from Exhibit 2.1 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
3.1	Third Amended and Restated Certificate of Incorporation (incorporated by reference from Exhibit 3.1 of our Current Report on Form 8-K, filed on November 11, 2004)
3.2	Amended and Restated Bylaws, as amended through February 23, 2016 (incorporated by reference from Exhibit 3.1 of our Current Report on Form 8-K, filed on February 24, 2016)
4.1	Specimen Stock Certificate (incorporated by reference from Exhibit 4.1 to Amendment No. 3 to our Registration Statement on Form S-1, filed on October 1, 2004, Registration No. 333-118142)
31.1	Rule 13a-14(a)/15d-14(a) certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the President and Chief Executive Officer)
31.2	Rule 13a-14(a)/15d-14(a) certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the Chief Financial Officer)
32.1	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the President and Chief Executive Officer)
32.2	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the Chief Financial Officer)
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Extension Calculation Linkbase Document
101.DEF	Inline XBRL Extension Definition Linkbase Document
101.LAB	Inline XBRL Extension Label Linkbase Document
101.PRE	Inline XBRL Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

Date: September 9, 2021

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

By: /s/ Sharon John

Sharon John
President and Chief Executive Officer (on behalf of
the registrant and as principal executive officer)

By: /s/ Voin Todorovic

Voin Todorovic
Chief Financial Officer
(on behalf of the registrant and as principal
financial officer)

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

I, Sharon John, certify that:

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

/s/ Sharon John

Sharon John
President and Chief Executive Officer
Build-A-Bear Workshop, Inc.
(Principal Executive Officer)

Date: September 9, 2021

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

I, Voin Todorovic, certify that:

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

/s/ Voin Todorovic

Voin Todorovic
Chief Financial Officer
Build-A-Bear Workshop, Inc.
(Principal Financial Officer)

Date: September 9, 2021

**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 July 31, 2021 filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sharon John, President and Chief Executive Officer 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/ Sharon John

Sharon John

President and Chief Executive Officer

Build-A-Bear Workshop, Inc.

(Principal Executive Officer)

Date: September 9, 2021

**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 July 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Voin Todorovic, Chief Financial Officer 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/ Voin Todorovic

Voin Todorovic
Chief Financial Officer
Build-A-Bear Workshop, Inc.
(Principal Financial Officer)

Date: September 9, 2021