As filed with the Securities and Exchange Commission on September 20, 2004

Registration Statement No. 333-118142

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Pre-Effective Amendment No. 2

to

Form S-1

REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

Build-A-Bear Workshop, Inc.

(Exact name of registrant as specified in its charter)

Delaware	5945	43-1883836
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

1954 Innerbelt Business Center Drive

St. Louis, Missouri 63114
(314) 423-8000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Maxine Clark

Chief Executive Bear
Build-A-Bear Workshop, Inc.
1954 Innerbelt Business Center Drive
St. Louis, Missouri 63114
(314) 423-8000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

James H. Erlinger III, Esq.
R. Randall Wang, Esq.
Bryan Cave LLP
One Metropolitan Square
211 North Broadway, Suite 3600
St. Louis, Missouri 63102-2750
(314) 259-2000
(314) 259-2020 (fax)

Rohan S. Weerasinghe, Esq.
Shearman & Sterling LLP
599 Lexington Avenue
New York, New York 10022
(212) 848-4000
(212) 848-7179 (fax)

Approximate date of commencement of proposed sale to public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ______________

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ______________

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o ______________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
Common Stock, $0.01 par value per share	$125,000,000	$15,837.50

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933 and includes shares that may be purchased by the underwriters to cover over-allotments, if any.

(2) The registration fee was paid concurrently with the initial filing of the Registrant's Form S-1 on August 12, 2004.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED , 2004

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting any offer to buy these securities in any state where the offer or sale is not permitted.

Shares

Common Stock

We are offering shares of common stock and the selling stockholders are offering shares of our common stock. We will not receive any of the proceeds from the sale of the shares by the selling stockholders. No public market currently exists for our common stock. We expect the public offering price to be between $ and $ per share.

We intend to apply to have our common stock approved for listing on the New York Stock Exchange under the symbol "BBW."

The underwriters have a 30-day option to purchase a maximum of additional shares of common stock from certain selling stockholders to cover over-allotments of shares.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 9.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Build-A-Bear Workshop	Proceeds to Selling Stockholders
Per Share	$	$	$	$
Total	$	$	$	$

Delivery of the shares of common stock will be made on or about , 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston **Citigroup**

JPMorgan

A.G. Edwards **Thomas Weisel Partners LLC**

The date of this prospectus is , 2004.

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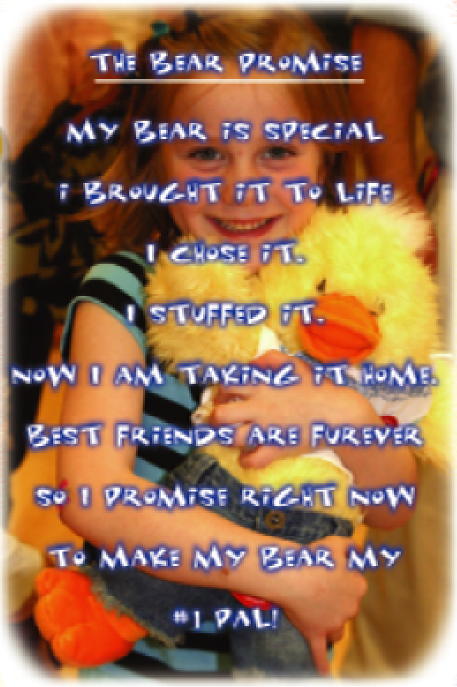
BABW® FLOAT IN MACY'S THANKSGIVING DAY PARADE™

BABW® STORE OPENING CELE-BEAR-ATION!

BABW® STORE IN DOWNTOWN DISNEY® DISTRICT ANAHEIM, CA



BABW® STORE IN JORDAN CREEK TOWN CENTER WEST DES MOINES, IOWA

BABW® FRANCHISE STORE GINZA, JAPAN

STUFFED WITH HUGS™ NATIONAL CHARITABLE EVENT

MAKE YOUR OWN PHANATIC!™ BY BUILD-A-BEAR WORKSHOP® PHILADELPHIA, PA

BEAREMY'S BIRTHDAY BASH IN-STORE EVENT

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You should rely only on the information contained in this prospectus or to which we have referred you. We have not, and the underwriters have not, authorized anyone else to provide you with different or additional information. This prospectus may only be used where it is legal to sell these securities. This prospectus is not an offer to sell or a solicitation of an offer to buy securities in any circumstances in which the offer or solicitation is unlawful. The information in this prospectus may only be accurate on the date of this prospectus and is subject to change after such date.

Dealer Prospectus Delivery Obligation

Until , 2004 (the 25th day after commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before deciding to invest in our common stock. You should read this entire prospectus carefully, especially the risks of investing in our common stock that we discuss under "Risk Factors."

Our Business

Overview

We are the leading, and only national, company providing a "make your own stuffed animal" interactive retail-entertainment experience. As of July 3, 2004, we operated 157 stores in 37 states and Canada and had five franchised stores internationally, all under the Build-A-Bear Workshop® brand. Our concept is based on our customers, or "guests," creating, personalizing and customizing their stuffed animals, and capitalizes on what we believe is the relatively untapped demand for experience-based shopping as well as the widespread appeal of stuffed animals.

We offer an extensive and coordinated selection of merchandise, including over 30 different styles of animals to be stuffed and a wide variety of clothing, shoes and accessories for the stuffed animals. Our concept appeals to a broad range of age groups and demographics, including children, teens, parents and grandparents. We believe that our stores, which are primarily located in malls, are destination locations and draw guests from a large geographic reach. In addition to our mall-based stores, we market our products and build our brand through our website.

During fiscal 2003, we developed and tested in select markets a multi-media marketing program targeting our core demographic guests, principally parents and children. The program incorporated consistent messaging across a variety of media, including television, online and direct mail advertising. We designed the program to increase our brand awareness and store traffic and attract more first-time and repeat guests. We introduced this program nationwide in February 2004 and have experienced an increase in our comparable store sales in every month since the rollout.

We have grown our store base from 14 stores at the end of fiscal 1999 to 157 as of July 3, 2004 and increased our revenues from $106.6 million in fiscal 2001 to $213.4 million in fiscal 2003, for a compound annual revenue growth rate of 41.6%, and increased net income from $1.9 million in fiscal 2001 to $8.0 million in fiscal 2003, for a compound annual net income growth rate of 104.6%.

Competitive Strengths

We offer an exciting interactive shopping experience.

Unlike most other mall-based retail stores, the Build-A-Bear Workshop® experience is not exclusively product driven but rather integrates the interactive stuffed animal-making process with our creative merchandise selection. We offer our guests an opportunity to actively participate in the creation, customization and personalization of their own stuffed animal through eight "hands-on" animal-making stations. Our highly visual and colorful stores feature a teddy bear theme, displays of numerous, fully-dressed stuffed animals, the selective use of special "bear" phrases and custom-designed fixtures which are intended to immerse our guests in the teddy bear theme and add excitement to the shopping experience.

We have a broad and loyal guest base.

We believe our distinctive retail-entertainment shopping experience has made Build-A-Bear Workshop® a destination retailer with a broad and loyal guest base that enjoys our concept and therefore returns to make additional purchases. Our major guest segments include families with children, primarily age three to twelve; their grandparents, aunts and uncles; teen girls who occasionally bring along their boyfriends; and child-centric organizations looking for interactive entertainment options. During the first half of fiscal 2004, 90% of guests who completed our guest satisfaction survey gave their overall experience the highest or second highest rating, with 74% giving the highest rating of "Beary Best." Approximately 80% of returning guests who responded to our surveys in 2003 indicated that they pre-planned their visit to our stores.

We have strong merchandising expertise.

Through our in-house design and product development team, we have developed a coordinated, creative and broad merchandise assortment, the vast majority of which is designed by us. Through guest feedback and monitoring the fashion and entertainment markets, we are able to offer current fashions that drive clothing and accessory sales as well as respond to other market influences that generate product line and animal additions. We typically carry approximately 450 individual products in our stores, as we intend for each item to be highly productive. We believe this merchandising strategy, along with the Build-A-Bear Workshop® experience, has created a strong value proposition for our guests that allows us to emphasize the product and the experience rather than the price, avoiding the need to discount our products to drive sales.

We provide a high level of guest service through consistent execution.

We devote significant resources to guest service in order to provide a quality entertainment experience. We carefully select and train our store employees to promote a friendly and personable store environment and to provide a high level of service. Our above average employee retention rates, based on 2003 industry data, contribute to the consistency and quality of the guest experience.

We have an attractive store economic model.

We believe that we have developed an appealing retail store model that is profitable and operates successfully in a variety of geographies, malls and non-mall locations. Our stores open for the entire period averaged $502 in net retail sales per gross square foot and $1.6 million in net retail sales per store in fiscal year 2003, and $287 in net retail sales per gross square foot and $879 thousand in net retail sales per store in the first half of fiscal 2004. This compares favorably with the $345 in average sales per square foot for non-anchor mall tenants for 2003, as reported by the International Council of Shopping Centers. Our store contribution as a percentage of net retail sales, excluding revenue from our webstore and seasonal and event-based locations, was 22.8% in fiscal 2003 and 26.4% in the first half of fiscal 2004, and our total net income as a percentage of total revenues was 3.7% in fiscal 2003 and 7.5% in the first half of fiscal 2004. Substantially all of our new stores have been profitable in the first twelve months of operation. In fiscal 2003, we also reduced our average investment per store, which includes the cost of leasehold improvements (net of tenant allowances), fixtures and equipment, inventory (net of trade payables), and preopening expenses, to $485 thousand, a decrease of 19% from the average investment for stores opened in fiscal 2002.

We define "store contribution" as net income before income tax expense, interest, store depreciation and amortization, store preopening expense and general and administrative expense, excluding franchise fees, license revenues and contribution from our webstore and seasonal and event-based locations. For a reconciliation o store contribution to net income, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures."

We have a highly experienced and disciplined management team.

Our senior management team, led by our Chief Executive Bear, Maxine Clark, has extensive experience in a variety of retail sectors and in corporate management. As we have continued to build our company, we have added key leaders in selected areas of our business. We believe we have attracted a highly talented and experienced team to continue to grow the Build-A-Bear Workshop® brand and our company.

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Growth Strategy

Continue to expand our store base in the United States and Canada.

We have increased our store locations throughout the United States and Canada from 14 at the end of fiscal 1999 to 157 as of July 3, 2004. We plan to open a total of 21 Build-A-Bear Workshop® stores in the United States and Canada in fiscal 2004, eight of which had been opened as of July 3, 2004, and 25 to 30 new stores in fiscal 2005. We believe that we could eventually open approximately 350 Build-A-Bear Workshop® stores in the United States and Canada.

Continue to expand our retail concept outside the United States and Canada.

We believe that there is continued opportunity to expand our Build-A-Bear Workshop® concept and brand outside of the United States and Canada. Our franchisees have retail or real estate experience and as of July 3, 2004 have opened five Build-A-Bear Workshop® stores in four foreign countries under master franchise agreements on a country-by-country basis. We expect our franchisees to open a total of eight to twelve stores in fiscal 2004, four of which had been opened as of July 3, 2004, and between 15 and 20 new stores in fiscal 2005 under existing and future franchise agreements. We believe there is a market potential for approximately 350 stores outside the United States and Canada.

Continue to expand non-mall locations.

Based on our experience with non-mall based stores in tourist locations, such as the Downtown Disney® District at the Disneyland® Resort in Anaheim, California and Broadway at the Beach in Myrtle Beach, South Carolina, as well as our location at Citizens Bank Park, home of the Philadelphia Phillies baseball club, we believe we have growth opportunities in additional non-mall locations. These locations provide us with high-traffic venues with captive audiences that are generally comprised of a somewhat different demographic than typically visits the malls in which we operate and can lead to increased traffic for our mall-based stores. Additionally, we believe we can further expand our concept into other non-mall locations, such as theme parks, cruise ships and other tourist locations.

Seek to expand into new lines of experiential retail.

We believe that consumer demand for additional experiential retail concepts is relatively untapped and that our expertise in product development and providing a consistent shopping experience can be applied to other experiential retail brands and concepts. We expect to be able to leverage our extensive guest database to market these new brands and concepts. In fiscal 2003, we began testing in certain markets our initial brand expansion initiative, our proprietary “Friends 2B Made” line of make-your-own dolls and related products.

Pursue other non-retail opportunities.

We have entered into a series of licensing arrangements with leading manufacturers such as American Greetings, Creative Imaginations, Elan-Polo, HarperCollins, Hasbro® and Springs to develop a collection of lifestyle Build-A-Bear Workshop® branded products, including greeting cards, scrapbook supplies, shoes, books, toys and bedding, fabric and bath accessories. We believe that these licensing initiatives have the potential to expand the reach of our brand, raise brand awareness, reach shoppers in non-mall locations and increase our revenues.

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We were originally formed on September 8, 1997 as Build-A-Bear Workshop, L.L.C., a Missouri limited liability company. On April 3, 2000, Build-A-Bear Workshop, L.L.C. merged with and into Build-A-Bear Workshop, Inc., a Delaware corporation, with Build-A-Bear Workshop, Inc. as the surviving entity. Our principal executive offices are located at 1954 Innerbelt Business Center Drive, St. Louis, Missouri 63114. Our telephone number is (314) 423-8000. Our website is *www.buildabear.com.* The information contained on our website is not incorporated by reference into and does not form any part of this prospectus.

Throughout this prospectus, we refer to various trademarks, service marks and trade names that we use in our business. BABW®, Beararmoire®, Bearemy®, Bearemy Bucks®, Bearemy's Kennel Pals®, Bearyjane®, Bearth Certificate®, Beary Newsworthy®, Build-A-Bear Workshop®, Build-A-Party®, Build-A-Sound® Build-A-Bear Workshop Where Best Friends Are Made®, Where Best Friends Are Made®, Buy Stuff Club®, Bear Stuff®, Choose Me, Hear Me, Stuff Me, Stitch Me, Fluff Me, Name Me, Dress Me, Take Me Home®, Collectibear®, Traveling Teddy®, Cub Condo®, CubCase®, Find-A-Bear®, Bear Bunk Trunk®, Hibernities®, UndiBear®, Furton®, Comfy Stuff Fur-niture®, Lil' Cub®, Scootfur®, Seal of Pawthenticity®, Bear Bucks®, Honeycard®, Bear University®, Bear-A-Log®, Hug Freely®, Love Stuff Headquarters®, Stuffed With Hugs and Good Wishes®, Pawlette Coufur®, and Kooky Spooky Bear Bash® are some of our registered trademarks. Bear Builder℠, Bearism™, Paw Wear™, Friends 2B Made™, Nikki's Bear™ and Lifetime Paw Pass™ are some of our trademarks and service marks. We also have a number of other registered service marks and trademarks and service marks and trademark applications related to our products, services and concepts that we refer to throughout this prospectus. This prospectus also refers to trademarks and trade names of other organizations.

The Offering

Common stock offered by us	shares
Common stock offered by the selling stockholders	shares
Over-allotment option granted by certain selling stockholders	shares
Common stock to be outstanding after the offering	shares
Use of proceeds	We estimate that the net proceeds to us from this offering will be approximately $ million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We plan to use the net proceeds from this offering: • to fund the opening of new stores; and • for working capital and general corporate purposes. Pending the application of the net proceeds from this offering, we intend to invest the proceeds in short-term, interest-bearing, investment-grade securities. We will not receive any of the proceeds from the sale of shares by the selling stockholders. See “Use of Proceeds.”
Dividend policy	We paid a special $10.0 million cash dividend to our stockholders in August 2004. We do not expect to pay cash dividends in the foreseeable future. See “Dividend Policy.”
Risk factors	You should carefully consider all of the information in this prospectus and, in particular, you should evaluate the specific factors set forth under “Risk Factors” in deciding whether to invest in our common stock.
Proposed New York Stock Exchange symbol	“BBW”

Except as otherwise indicated, information in this prospectus assumes the conversion of each outstanding share of our convertible preferred stock into shares of our common stock and no exercise of the underwriters’ over-allotment option.

The total number of shares of our common stock referred to above that will be outstanding immediately after completion of this offering is based on the number of shares of our common stock outstanding as of July 3, 2004, after giving effect to the conversion of all of our outstanding shares of preferred stock upon completion of this offering, and excludes, as of that date:

- 1,047,283 shares of our common stock issuable upon exercise of options outstanding as of July 3, 2004 under our 2000 Stock Option Plan and our 2002 Stock Incentive Plan, at a weighted average exercise price of $6.52 per share;
- up to 2,073,820 additional shares of our common stock reserved for issuance under our 2004 Stock Incentive Plan; and
- 315,797 restricted shares subject to promissory notes from the holders of such shares.

Summary Consolidated Financial and Operating Data

The following table sets forth summary financial and certain operating data for our business as of and for the periods indicated. Operating results for the first half of fiscal 2004 are not necessarily indicative of the results for the fiscal year ending January 1, 2005 or for any future fiscal period. You should read this Summary Consolidated Financial and Operating Data in conjunction with our “Selected Consolidated Financial and Operating Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this prospectus. See the notes to our consolidated financial statements for an explanation of the method used to determine the numbers of shares used in computing basic and diluted earnings per common share.

Throughout this prospectus, we refer to our fiscal years ended January 1, 2000, December 30, 2000, December 29, 2001, December 28, 2002 and January 3, 2004 as fiscal years 1999, 2000, 2001, 2002 and 2003, respectively. Our fiscal year consists of 52 or 53 weeks, reported in four 13-week periods, and ends on the Saturday nearest December 31 in each year. Fiscal years 1999, 2000, 2001 and 2002 included 52 weeks and fiscal year 2003 included 53 weeks. When we refer to the first half of fiscal 2003 and 2004, we are referring to the 26-week periods ended June 28, 2003 and July 3, 2004. When we refer to our fiscal quarters, or any three month period ending as of a specified date, we are referring to the 13-week period prior to that date. All of our fiscal quarters presented in this prospectus included 13 weeks, except for the quarter ended January 3, 2004, which had 14 weeks.

	Fiscal Year Ended			26 Weeks Ended	
	December 29, 2001	December 28, 2002	January 3, 2004	June 28, 2003	July 3, 2004
	(Dollars in thousands, except per gross square foot data)				
Statement of operations data:					
Total revenues	$ 106,622	$ 169,138	$ 213,672	$ 92,583	$ 135,727
Costs and expenses:					
Cost of merchandise sold	56,708	90,848	116,515	51,929	70,146
Selling, general and administrative	41,100	65,628	81,091	36,084	48,632
Store preopening	3,124	3,091	3,045	1,491	580
Other expense (income), net(1)	2,620	(88)	(58)	(55)	(98)
Total costs and expenses	103,552	159,479	200,593	89,449	119,260
Income before income taxes	3,192	9,659	13,079	3,134	16,467
Net income	1,905	5,868	7,978	1,849	10,209
Earnings per common share:					
Basic(2)	$ 0.09	$ 0.35	$ 0.57	$ 0.07	$ 0.92
Diluted	$ 0.07	$ 0.32	$ 0.45	$ 0.07	$ 0.57
Shares used in computing per share amounts:					
Basic(2)	217,519	217,519	217,519	217,519	284,731
Diluted	9,101,143	12,055,458	17,546,348	9,367,692	17,938,328
Other financial data:					
Gross margin ($)(3)	$ 49,913	$ 78,275	$ 96,912	$ 40,559	$ 65,273
Gross margin (%)(3)	46.8%	46.3%	45.4%	43.9%	48.2%
Capital expenditures(4)	$ 21,624	$ 18,718	$ 18,362	$ 10,338	$ 4,438
Depreciation and amortization	4,588	7,775	11,065	4,939	6,030

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	Fiscal Year Ended			26 Weeks Ended	
	December 29, 2001	December 28, 2002	January 3, 2004	June 28, 2003	July 3, 2004
	(Dollars in thousands, except per gross square foot data)				
Cash flow data:					
Cash flows provided by (used in) operating activities	$ 14,482	$ 18,664	$ 25,215	$ (1,004)	$10,809
Cash flows used in investing activities	(23,280)	(20,232)	(20,480)	(11,177)	(5,095)
Cash flows provided by (used in) financing activities	19,256	(121)	—	—	—
Store data(5):					
Number of stores at end of period	71	108	150	123	157
Average net retail sales per store(6)(7)	$ 2,003	$ 1,904	$ 1,605	$ 791	$ 879
Net retail sales per gross square foot(7)(8)	634	582	502	247	287
Comparable store sales change (%)(9)	(6.7)%	(9.7)%	(15.9)%	(16.5)%	13.8%

	As of				
	December 29, 2001	December 28, 2002	January 3, 2004	July 3, 2004	
				Actual	Pro Forma as Adjusted(10)
	(Dollars in thousands)				
Balance sheet data:					
Cash and cash equivalents	$17,555	$15,866	$ 20,601	$ 26,315	$
Working capital	8,983	4,813	7,724	18,656	
Total assets	72,854	93,693	111,964	124,833	
Long-term debt	—	—	—	—	
Redeemable convertible preferred stock	33,964	35,920	37,890	38,875	
Total stockholders’ equity	11,628	15,526	21,540	30,728	

(1) Includes impairment charges of $1,006 and litigation settlement expenses of $1,550 for the fiscal year ended December 29, 2001.

(2) Basic earnings per common share gives effect to the allocation of net income available to common stockholders between common and participating preferred shares on a pro rata basis.

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

(4) Capital expenditures consists of leasehold improvements, net of tenant allowances received from landlords, furniture and fixtures and computer equipment and software purchases.

(5) Excludes our webstore and seasonal and event-based locations.

(6) Average net retail sales per store represents net retail sales from stores open throughout the entire period divided by the total number of such stores.

(7) When we refer to average net retail sales per store and net retail sales per gross square foot for any period, we include in those calculations only those stores that have been open for that entire period.

(8) Net retail sales per gross square foot represents net retail sales from stores open throughout the entire period divided by the total gross square footage of such stores.

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(9) Comparable store sales percentage changes are based on net retail sales and stores are considered comparable beginning in their thirteenth full month of operation.

(10) On a pro forma as adjusted basis to give effect to the special $10.0 million cash dividend paid in August 2004, the automatic conversion of all of our outstanding shares of preferred stock as of this date upon completion of this offering, and the issuance and sale of shares of common stock at an assumed public offering price of $ per share, less underwriting discounts and commissions and estimated offering expenses.

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RISK FACTORS

You should carefully consider each of the following risks, as well as all of the other information contained in this prospectus, before deciding to invest in our common stock. If any of these risks occurs, our business may be adversely affected, the trading price of our common stock could decline, and you may lose part or all of your investment.

Risks Related to Our Business

If we are not able to maintain our current comparable store sales growth, our results of operations could be adversely affected.

Our comparable store sales for the first half of fiscal 2004 increased 13.8%. However, our comparable store sales declined 6.7%, 9.7% and 15.9% in fiscal 2001, 2002 and 2003, respectively. Historically, a majority of our stores have generated a high level of sales immediately after opening, followed by a decline in the following year. For the 87 stores that had been open at least a full 24 months as of July 3, 2004, average net retail sales per store declined by $0.2 million in the second twelve months of operation compared to the first twelve months. We believe the principal factors that will affect comparable store results are the following:

- the continuing appeal of our concept;
- the effectiveness of our marketing efforts to attract new and repeat guests;
- consumer confidence and general economic conditions;
- our ability to anticipate and to respond, in a timely manner, to consumer trends;
- the impact of new stores that we open in existing markets;
- mall traffic;
- competition;
- the timing and frequency of national media appearances and other public relations events; and
- weather conditions.

As a result of these and other factors, we may not be able to maintain comparable stores sales growth in the future. If we are unable to maintain comparable store sales growth our results of operations could be significantly harmed.

Our future growth and profitability could be adversely affected if our marketing initiatives are not effective in generating sufficient levels of brand awareness and guest traffic.

During late fiscal 2003, we developed and tested a new targeted, integrated, multi-media marketing program that included television advertising and online components and which was designed to increase brand awareness and drive store traffic. We introduced this program nationwide in February 2004. Although we believe this program has been a significant reason for our increase in comparable store sales in the first half of fiscal 2004, we cannot assure you that it will continue to be successful. Our future growth and profitability will depend in large part upon the effectiveness and efficiency of this marketing program and future marketing efforts that we undertake, including our ability to:

- create greater awareness of our brand, interactive shopping experience and products;
- identify the most effective and efficient level of spending in each market;
- determine the appropriate creative message and media mix for marketing expenditures;
- effectively manage marketing costs (including creative and media) in order to maintain acceptable operating margins and return on marketing investment;

- select the right markets in which to market; and
- convert consumer awareness into actual store visits and product purchases.

Our planned marketing expenditures may not result in increased total or comparable store sales or generate sufficient levels of product and brand name awareness. We may not be able to manage our marketing expenditures on a cost-effective basis.

Our growth strategy requires us to open a significant number of new stores in the United States and Canada each year. If we are not able to open new stores or to effectively manage this growth, it could adversely affect our ability to grow and could significantly harm our profitability.

Our growth will largely depend on our ability to open and operate new stores successfully in the United States and Canada. We opened 37 stores in fiscal 2002 and 43 stores in fiscal 2003. In fiscal 2004, we plan to open a total of 21 new stores in the United States and Canada and anticipate further store openings in subsequent years. Our ability to identify and open new stores in desirable locations and operate such new stores profitably is a key factor in our ability to grow successfully. We cannot assure you as to when or whether desirable locations will become available, the number of Build-A-Bear Workshop stores that we can or will ultimately open, or as to whether any such new stores can be profitably operated. We have not always succeeded in identifying desirable locations or in operating our stores successfully in those locations. For example, as of July 3, 2004, we have closed two stores and have determined that one of our other stores will be closed. We cannot assure you that we will not have other stores in the future that we may have to close. Our ability to open new stores and to manage our growth also depends on our ability to:

- negotiate acceptable lease terms, including desired tenant improvement allowances;
- finance the preopening costs, capital expenditures and working capital requirements of the stores;
- manage inventory to meet the needs of new and existing stores on a timely basis;
- hire, train and retain qualified store personnel;
- develop cooperative relationships with our landlords; and
- successfully integrate new stores into our existing operations.

Increased demands on our operational, managerial and administrative resources could cause us to operate our business less effectively, which in turn could cause deterioration in our profitability.

If we are not able to franchise new stores outside of the United States and Canada, if we are unable to effectively manage our international 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.

In 2003, we began to expand the Build-A-Bear Workshop brand outside of the United States, opening our own stores in Canada and our first franchised location in the United Kingdom. We intend to continue expanding outside of the United States and Canada through franchising in several countries over the next several years. As of July 3, 2004, there were five Build-A-Bear Workshop franchised stores located in the United Kingdom, Japan, South Korea and Denmark. We have limited experience in franchising, and we cannot assure you that our franchisees will be successful in operating their stores or that we will be successful in maintaining and implementing our international franchising strategy. These markets frequently have different demographic characteristics, competitive conditions, consumer tastes and discretionary spending patterns than our existing United States and Canadian markets, which may cause these stores to be less successful than those in our existing markets. Additionally, our franchisees may experience merchandising and distribution challenges that are different from those we currently encounter in our existing markets. The operations and results of our franchisees could be negatively impacted by the financial or political factors in the countries in which they operate. These challenges, as well as others, could have a material adverse effect on our business, financial condition and results of operations.

The success of our franchising strategy will depend upon our ability to attract qualified franchisees with sufficient financial resources to develop and grow the franchise operation and upon the ability of those franchisees to develop and operate their franchised stores. Franchisees may not operate stores in a manner consistent with our standards and requirements, may not hire and train qualified managers and other store personnel and may not operate their stores profitably. As a result, our franchising strategy may not be profitable to us and, moreover, our image and reputation may suffer. For example, the operations of our franchisee in South Korea have performed below expectations and we are negotiating to transfer the franchise to another party. Furthermore, even if our international franchising strategy is successful, the interests of franchisees might sometimes conflict with our interests. For example, whereas franchisees are concerned with their individual business strategies and objectives, we are responsible for ensuring the success of the Build-A-Bear Workshop brand and all of our stores.

The laws of the various foreign countries in which our franchisees operate govern our relationships with our franchisees. These laws, and any new laws that may be enacted, may detrimentally affect the rights and obligations between us and our franchisees and could expose us to additional liability.

If we are unable to generate interest in and demand for our interactive retail experience, including being able to identify and respond to consumer preferences in a timely manner our financial condition and profitability could be adversely affected.

We believe that our success depends in large part upon our ability to continue to attract guests with our interactive shopping experience and our ability to anticipate, gauge and respond in a timely manner to changing consumer preferences and fashion trends. We cannot assure you that our past success will be sustained or there will continue to be a demand for our "make your own stuffed animal" interactive experience, or for our stuffed animals, animal apparel and accessories. A decline in demand for our interactive shopping experience, our animals, animal apparel or accessories, or a misjudgment of consumer preferences or fashion trends, could have a negative impact on our business, financial condition and results of operations. In addition, if we miscalculate the market for our merchandise or the purchasing preferences of our guests, we may be required to sell a significant amount of our inventory at discounted prices or even below costs, thereby adversely affecting our financial condition and profitability.

A decrease in the customer traffic generated by the shopping malls in which we are located, which we depend upon to attract guests to our stores, could adversely affect our financial condition and profitability.

While we invest heavily in integrated marketing efforts and believe we are more of a destination location than traditional retailers, we rely to a great extent on customer traffic in the malls in which our stores are located. In order to generate guest traffic, we generally attempt to locate our stores in prominent locations within high traffic shopping malls. We rely on the ability of the malls' anchor tenants, generally large department stores, and on the continuing popularity of malls as shopping destinations. We cannot control the development of new shopping malls, the addition or loss of anchors and co-tenants, the availability or cost of appropriate locations within existing or new shopping malls or the desirability, safety or success of shopping malls. If we are unable to generate sufficient guest traffic, our sales and results of operations would be harmed. A significant decrease in shopping mall traffic could have a material adverse effect on our financial condition and profitability.

A decline in general economic conditions could lead to reduced consumer demand for our products and have an adverse affect on our liquidity and profitability.

Since purchases of our merchandise are dependent upon discretionary spending by our guests, our financial performance is sensitive to changes in overall economic conditions that affect consumer spending. Consumer spending habits are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, consumer confidence and consumer perception of economic conditions. A general or perceived slowdown in the United States or Canadian economy or uncertainty as to the economic outlook could reduce discretionary spending or cause a shift in consumer discretionary spending to other products. Any of these factors would likely cause us to delay or slow our expansion plans, result in lower net sales and could also result in excess inventories, which could, in turn, lead to increased merchandise markdowns and related costs associated with higher levels of inventory and adversely affect our liquidity and profitability.

Our market share may be adversely impacted at any time by a significant number of competitors.

We operate in a highly competitive environment characterized by low barriers to entry. We compete against a diverse group of competitors. Because we are mall-based, we see our competition as those mall-based retailers that compete for prime mall locations, including various apparel, footwear and specialty retailers. We also compete with toy retailers, such as Wal-Mart, Toys "R" Us, Kmart and Target and other discount chains, as well as with a number of manufacturers that sell plush toys in the United States and Canada, including, but not limited to, Ty, Fisher Price, Mattel, Russ Berrie, Applause, Boyd's, Hasbro, Commonwealth, Gund and Vermont Teddy Bear. Since we offer our guests an experience as well as merchandise, we also view our competition as any company that competes for our guests' time and entertainment dollars, such as movie theaters, restaurants, amusement parks and arcades. In addition, there are several small companies that operate "create your own" teddy bear and stuffed animal experiences in retail stores and kiosks. Although we believe that currently none of these companies offers the breadth and depth of the Build-A-Bear Workshop products and experience, we cannot assure you that they will not compete directly with us in the future.

Many of our competitors have longer operating histories, significantly greater financial, marketing and other resources, and greater name recognition. We cannot assure you that we will be able to compete successfully with them in the future, particularly in geographic locations that represent new markets for us. If we fail to compete successfully, our market share and results of operations could be materially and adversely affected.

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.

The success of our business depends upon our senior management closely supervising all aspects of our business, in particular the operation of our stores and the design, procurement and allocation of our merchandise. Also, because guest service is a defining feature of the Build-A-Bear Workshop corporate culture, we must be able to hire and train qualified managers and Bear Builder associates to succeed. The loss of certain key employees, including Maxine Clark, our founder and Chief Executive Bear, Barry Erdos, our President and Chief Operating Officer Bear, or other members of our senior management, our inability to attract and retain other qualified key employees or a labor shortage that reduces the pool of qualified store associates could have a material adverse effect on our business, financial condition and results of operations. We generally do not maintain key person insurance with respect to our executives, management or other personnel, except for limited coverage of our Chief Executive Bear.

We rely on two vendors to supply substantially all of our merchandise, and any disruption in their ability to deliver merchandise could harm our ability to source products and supply inventory to our stores.

We do not own or operate any manufacturing facilities. We purchased approximately 80% of our merchandise in fiscal 2001, approximately 74% in fiscal 2002, and approximately 76% in fiscal 2003, from two vendors. These vendors in turn contract for our orders with multiple factories for the production of merchandise. Our relationships with our vendors generally are on a purchase order basis and do not provide a contractual obligation to provide adequate supply, quality or acceptable pricing on a long-term basis. Our vendors could discontinue sourcing merchandise for us at any time. If one or both of our significant vendors were to discontinue their relationship with us, or if the factories with which they contract were to suffer a disruption in their production, we may be unable to replace the vendors in a timely manner, which could disrupt our store operations and have an adverse effect on our business, financial condition and results of operations.

Our merchandise is manufactured by foreign manufacturers; therefore the availability and costs of our products may be negatively affected by risks associated with international manufacturing and trade.

We purchase our merchandise from domestic vendors who contract with manufacturers in foreign countries, primarily in China. Any event causing a disruption of imports, including the imposition of import restrictions or labor strikes or lock-outs, could adversely affect our business. For example, in fiscal 2002, we experienced disruption to our import of merchandise as well as increased shipping costs associated with a dock-worker labor dispute. The flow of merchandise from our vendors could also be adversely affected by financial or political instability in any of the countries in which the goods we purchase are manufactured, especially China, if the instability affects the production or export of merchandise from those countries. New outbreaks of highly infectious epidemics in Asia, or elsewhere, such as SARS and avian influenza, or Asian bird flu, and concerns over its spread could have a negative impact on commerce and general economic conditions in Asia and could result in quarantines or closures of our suppliers' facilities in Asia, including China, and adversely impact our ability to purchase goods from our suppliers. Trade restrictions in the form of tariffs or quotas, or both, applicable to the products we sell could also affect the importation of those products and could increase the cost and reduce the supply of products available to us. In addition, decreases in the value of the U.S. dollar against foreign currencies could increase the cost of products we purchase from overseas vendors.

We rely on third parties to manage the warehousing and distribution aspects of our business. If these third parties do not adequately perform these functions, our business would be disrupted.

The efficient operation of our stores is dependent on our ability to distribute merchandise to locations throughout the United States in a timely manner. We depend on third party distribution centers in St. Louis, Missouri, Los Angeles, California and Toronto, Canada to receive and warehouse substantially all of our merchandise and supplies. We rely on additional third parties to ship all of our merchandise and supplies from the distribution centers to our stores. Events such as fires, tornadoes, earthquakes or other catastrophic events, malfunctions of our third party distributors' distribution information systems, shipping problems or termination of our distribution agreements by such distributors would result in delays or disruptions in the timely distribution of merchandise to our stores, which could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in our quarterly results of operations could cause the price of our common stock to substantially decline.

Retailers generally are subject to fluctuations in quarterly results. Our operating results for one period may not be indicative of results for other periods, and may fluctuate significantly due to a variety of factors, including:

- the timing of new store openings and related expenses;
- the profitability of our stores;
- increases or decreases in comparable store sales;
- the timing and frequency of our marketing initiatives;
- changes in general economic conditions and consumer spending patterns;
- changes in consumer preferences;
- the effectiveness of our inventory management;
- actions of competitors or mall anchors and co-tenants;

- seasonal shopping patterns, including whether the Easter holiday occurs in the first or second quarter and other vacation schedules;

- the timing and frequency of national media appearances and other public relations events; and

- weather conditions.

If our future quarterly results fluctuate significantly or fail to meet the expectations of research analysts, then the market price of our common stock could decline substantially.

Our failure to renew, register or otherwise protect our trademarks could have a negative impact on the value of our brand names and our ability to use those names in certain geographical areas.

We believe our copyrights, service marks, trademarks, trade secrets, patents and similar intellectual property are critical to our success. We rely on trademark, copyright and other intellectual property laws to protect our proprietary rights. We also depend on trade secret protection through confidentiality and license agreements with our employees, subsidiaries, licensees, licensors and others. We may not have agreements containing adequate protective provisions in every case, and the contractual provisions that are in place may not provide us with adequate protection in all circumstances. The unauthorized reproduction or other misappropriation of our intellectual property could diminish the value of our brand, competitive advantages or goodwill and result in decreased revenues.

Despite our efforts to protect our intellectual property rights, intellectual property laws afford us only limited protection. A third party could copy or otherwise obtain information from us without authorization. Accordingly, we may not be able to prevent misappropriation of our intellectual property or to deter others from developing similar products or services. Further, monitoring the unauthorized use of our intellectual property is difficult. Litigation has been and may continue to be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation of this type has resulted in and could result in further substantial costs and diversion of resources, may result in counterclaims or other claims against us and could significantly harm our results of operations. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States.

We may have disputes with, or be sued by, third parties for infringement or misappropriation of their proprietary rights, which could have a negative impact on our business.

Other parties have asserted in the past, and may assert in the future, trademark, patent, copyright or other intellectual property rights that are important to our business. We cannot assure you that others will not seek to block the use of or seek monetary damages or other remedies for the prior use of our brand names or other intellectual property or the sale of our products or services as a violation of their trademark, patent or other proprietary rights. Defending any claims, even claims without merit, could be time-consuming, result in costly settlements, litigation or restrictions on our business and damage our reputation.

In addition, there may be prior registrations or use of intellectual property in the U.S. or foreign countries for similar or competing marks or other proprietary rights of which we are not aware. In all such countries it may be possible for any third party owner of a national trademark registration or other proprietary right to enjoin or limit our expansion into those countries or to seek damages for our use of such intellectual property in such countries. In the event a claim against us were successful and we could not obtain a license to the relevant intellectual property or redesign or rename our products or operations to avoid infringement, our business, financial condition or results of operations could be harmed. Securing registrations does not fully insulate us against intellectual property claims, as another party may have rights superior to our registration or our registration may be vulnerable to attack on various grounds.

If we are unable to renew or replace our store leases or enter into leases for new stores on favorable terms, or if we violate any of the terms of our current leases, our growth and profitability could be harmed.

We lease all of our store locations. The majority of our store leases contain provisions for base rent plus percentage rent based on sales in excess of an agreed upon minimum annual sales level. A number of our leases include a termination provision which applies if we do not meet certain sales levels during a specified period, typically in the third to fourth year of the lease. In addition, most of our leases will expire within the next ten years and generally do not contain options to renew. Furthermore, some of these leases contain various restrictions relating to change of control of our company. Our leases also subject us to risks relating to compliance with changing mall rules and the exercise of discretion by our landlords on various matters within the malls. In addition, the lease for our store in the Downtown Disney® District at the Disneyland® Resort in Anaheim, California provides that the landlord may terminate the lease at any time, subject to the payment of an early termination fee. As a result, we cannot assure you that the landlord will not exercise its right to terminate this lease.

We depend heavily on our communications and information systems, which are vulnerable to systems failures.

Our business is highly dependent on communications and information systems. Any failure or interruption of our systems, including those associated with new systems implementations or system upgrades, could significantly harm our business, including our sales, distribution, purchasing, inventory control, merchandising and financial controls. We cannot assure you that we will not suffer any of these systems failures or interruptions from power or telecommunication failures, natural disasters or otherwise, or that our back-up procedures and capabilities in the event of any such failure or interruption will be adequate.

Terrorism and the uncertainty of future terrorist attacks or war could reduce consumer confidence and mall traffic which could adversely affect our operating results.

Terrorist acts or acts of war may cause damage or disruption to our facilities, information systems, vendors, employees and guests, which could significantly harm our revenues and results of operations. In the future, fears of war or additional acts of terrorism, including alerts specifically listing malls as potential terrorist targets, may have a negative effect on mall traffic, consumer confidence or consumer discretionary spending patterns, as well as have an adverse effect on the economy in general. This impact may be particularly harmful to our business because we rely heavily on mall traffic, discretionary consumer spending and consumer confidence levels.

We are subject to potential challenges relating to overtime pay and other regulations that impact our employees, which could adversely affect our business.

Various labor laws, including federal, state and Canadian laws, govern our relationship with our employees and affect our operating costs. These laws include minimum wage requirements, overtime pay, unemployment tax rates, workers' compensation rates, citizenship requirements and sales taxes. A determination that we do not comply with these laws could harm our profitability or business reputation. In particular, as a retailer, we may be subject to challenges regarding the application of overtime and related pay regulations to our employees which could result in additional expense and liability. Additional government-imposed increases in minimum wages, overtime pay, paid leaves of absence or mandated health benefits could also materially adversely affect us.

We may suffer negative publicity or be sued if the manufacturers of our merchandise violate labor laws or engage in practices that our guests believe are unethical, or if our products are recalled or cause injuries.

We rely on our sourcing personnel to select manufacturers with legal and ethical labor practices, but we cannot control the business and labor practices of our manufacturers. If one of these manufacturers violates labor laws or other applicable regulations or is accused of violating these laws and regulations, or if such a manufacturer engages in labor or other practices that diverge from those typically acceptable in the United States, we could in turn experience negative publicity or be sued.

Many of our products are used by small children and infants who may be injured from usage. We may decide or be required to recall products or be subject to claims or lawsuits resulting from injuries. For example, in January 2003, we voluntarily recalled a product due to a possible safety issue, for which a vendor reimbursed us for certain related expenses. Negative publicity in the event of any recall or if any children are injured from our products could have a material adverse effect on sales of our products and our business, and related recalls or lawsuits with respect to such injuries could have a material adverse effect on our financial position. Although we currently have liability insurance, we cannot assure you that it would cover product recalls and we face the risk that claims or liabilities will exceed our insurance coverage. Furthermore, we may not be able to maintain adequate liability insurance in the future.

Portions of our business are subject to privacy and security risks. If we improperly obtain, or are unable to protect, information from our guests, we could be subject to liability and damage to our reputation.

In addition to serving as an online sales portal, our website, *www.buildabear.com*, features children’s games, e-cards and printable party invitations and thank-you notes, and provides an opportunity for children under the age of 13 to sign up, with the consent of their parent or guardian, to receive our online newsletter. We currently obtain and retain personal information about our website users. In addition, we obtain personal information about our guests as part of their registration in our Find-A-Bear identification system. Federal, state and foreign governments have enacted or may enact laws or regulations regarding the collection and use of personal information, with particular emphasis on the collection of information regarding minors. Such regulations include or may include requirements that companies establish procedures to:

- give adequate notice regarding information collection and disclosure practices;
- allow consumers to have personal information deleted from a company’s database;
- provide consumers with access to their personal information and the ability to rectify inaccurate information;
- obtain express parental consent prior to collecting and using personal information from children; and
- comply with the Federal Children’s Online Privacy Protection Act.

Such regulation may also include enforcement and redress provisions. While we have implemented programs and procedures designed to protect the privacy of people, including children, from whom we collect information, and our website is designed to be fully compliant with the Federal Children’s Online Privacy Protection Act, there can be no assurance that such programs will conform to all applicable laws or regulations.

We have a stringent privacy policy covering the information we collect from our guests and have established security features to protect our guest database and website. However, our security measures may not prevent security breaches. We may need to expend significant resources to protect against security breaches or to address problems caused by breaches. If third persons were able to penetrate our network security and gain access to, or otherwise misappropriate, our guests’ personal information, it could harm our reputation and, therefore, our business and we could be subject to liability. Such liability could include claims for misuse of personal information or unauthorized use of credit cards. These claims could result in litigation, our involvement in which, regardless of the outcome, could require us to expend significant financial resources. In addition, because our guest database primarily includes personal information of young children and young children frequently interact with our website, we are potentially vulnerable to charges from parents, children’s organizations, governmental entities, and the media of engaging in inappropriate collection of data from children. Such charges could adversely impact guest relationships and ultimately cause a decrease in net sales and also expose us to litigation and possible liability.

Risks Related to Owning Our Common Stock

If an active trading market for our common stock does not develop, the value and liquidity of your investment in our common stock could be adversely affected.

Prior to this offering, there has been no public market for our common stock. We expect that our common stock will be listed on the New York Stock Exchange; however, we cannot assure you that an active trading market will develop for our common stock. The initial public offering price of the common stock will be determined by negotiations among us, the selling stockholders and the underwriters based on numerous factors that we discuss in the "Underwriting" section of this prospectus. This price may not be indicative of the market price for our common stock after this initial public offering.

The market price of our common stock may be materially adversely affected by market volatility which could result in costly and time-consuming securities litigation.

The market price of our common stock could be subject to significant fluctuations after this offering, and may decline below the initial public offering price. You may not be able to resell your shares at or above the initial public offering price. Among the factors that could affect our stock price are:

- actual or anticipated variations in comparable store sales or operating results;
- changes in financial estimates by research analysts;
- actual or anticipated changes in economic, political or market conditions, such as recessions or international currency fluctuations;
- changes in the retailing environment;
- changes in the market valuations of other specialty retail companies; and
- announcements by us or our competitors of significant acquisitions, strategic partnerships, divestitures, joint ventures or other strategic initiatives.

The stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of individual companies. These broad market fluctuations may adversely affect the trading price of our common stock.

In the past, following periods of volatility in the market price of a company's securities, stockholders have often instituted class action securities litigation against those companies. Such litigation, if instituted, could result in substantial costs and a diversion of management attention and resources, which would significantly harm our profitability and reputation.

Our principal stockholders will continue to own a large percentage of our voting stock after this offering, which will allow them to control substantially all matters requiring stockholder approval.

Upon completion of this offering, our executive officers, directors and principal stockholders and their affiliates will own approximately % of our outstanding common stock, or % if the underwriters exercise their over-allotment option in full. If these stockholders act together, they would be able to elect our board of directors and control all other matters requiring approval by stockholders, including the approval of mergers, going private transactions and other extraordinary transactions, as well as the terms of any of these transactions. This concentration of ownership could have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which could in turn have an adverse effect on the market price of our common stock or prevent our stockholders from realizing a premium over the then-prevailing market price for their shares of common stock.

The public sale of our common stock by existing stockholders could adversely affect the price of our common stock.

The market price of our common stock could decline as a result of sales by our existing stockholders after this offering or the perception that these sales will occur. These sales also might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Upon completion of this offering, we will have a total of fully diluted shares of common stock outstanding, including shares underlying currently outstanding options. Of these shares, shares were not sold in this offering and are “restricted securities,” which means the holder acquired these securities from us or an affiliate in a transaction that did not involve a public offering. These shares may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rule 144 of the Securities Act. At this time, following the lapse of contractual restrictions imposed by the underwriters, all restricted securities, whether or not held by our affiliates, will be eligible to be sold, subject to certain volume and other limitations under Rule 144 under the Securities Act. Shares sold in the offering to our affiliates will also be subject to Rule 144 of the Securities Act. In addition, beginning six months after completion of this offering, the holders of approximately shares of our common stock have the right to require us to register the sale of their shares of our common stock under the Securities Act.

Purchasers of our common stock in this offering will be subject to immediate substantial dilution and may be subject to additional dilution in the future.

The assumed initial public offering price of $ per share is substantially higher than the net tangible book value per share of our outstanding common stock both before the offering, $ per share, and after the offering, $ per share. As a result, purchasers of our common stock in this offering will incur immediate, substantial dilution in the amount of $ per share based on the assumed initial public offering price. In the past we have granted options to our key employees to purchase our common stock, and we expect to continue to grant a substantial number of options in the future. These grants of options or other issuances could also result in dilution to stockholders. In addition, if we issue preferred stock, the rights of the holders of common stock will be subject to, and may be harmed by, the rights of the holders of any preferred stock. See “Dilution.”

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.

Our basic corporate documents and Delaware law contain provisions that might enable our management to resist a takeover. These provisions:

- restrict various types of business combinations with significant stockholders;
- provide for a classified board of directors;
- limit the right of stockholders to remove directors or change the size of the board of directors;
- limit the right of stockholders to fill vacancies on the board of directors;
- limit the right of stockholders to act by written consent and to call a special meeting of stockholders or propose other actions;
- require a higher percentage of stockholders than would otherwise be required to amend, alter, change or repeal our bylaws and certain provisions of our certificate of incorporation; and
- authorize the issuance of preferred stock with any voting rights, dividend rights, conversion privileges, redemption rights and liquidation rights and other rights, preferences, privileges, powers, qualifications, limitations or restrictions as may be specified by our board of directors.

These provisions may:

- discourage, delay or prevent a change in the control of our company or a change in our management, even if such change may be in the best interests of our stockholders;

- adversely affect the voting power of holders of common stock; and

- limit the price that investors might be willing to pay in the future for shares of our common stock.

Management will have significant discretion over the use of proceeds from this offering and may use the proceeds in a manner which is different from their current intent.

While we intend to use the net proceeds of the offering to fund the opening of new stores and working capital and for general corporate purposes, we will have broad discretion to adjust the application and allocation of the net proceeds in order to address changed circumstances and opportunities. The success of our operations that are influenced by working capital allocations will be substantially dependent upon the discretion and judgment of our management with respect to the application and allocation of the net proceeds.

We do not anticipate paying cash dividends, and accordingly stockholders must rely on stock appreciation for any return on their investment in us.

We paid a special $10.0 million cash dividend to our stockholders in August 2004. We anticipate that we will retain our earnings for future growth and therefore do not anticipate paying cash dividends in the future. As a result, only appreciation of the price of the common stock will provide a return to investors in this offering. Investors seeking cash dividends should not invest in our common stock.

FORWARD-LOOKING STATEMENTS

This prospectus contains certain statements that are, or may be considered to be, “forward-looking statements” for the purpose of federal securities laws, including, but not limited to, statements that reflect our current views with respect to future events and financial performance. We generally identify these statements by words or phrases such as “may,” “might,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “intend,” “predict,” “future,” “potential” or “continue,” the negative or any derivative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include, among other things, projections or statements regarding:

- our future financial performance;
- our anticipated operating and growth strategies;
- our anticipated rate of store openings;
- our anticipated store opening costs; and
- our future capital expenditures.

These statements are only predictions based on our current expectations and projections about future events. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by these forward-looking statements, including those factors discussed under the caption entitled “Risk Factors” as well as other places in this prospectus.

We operate in a competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all the risk factors, nor can it assess the impact of all the risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements, which speak only as of the date of this prospectus, as a prediction of actual results.

You should read this prospectus completely and with the understanding that our actual results may be materially different from what we expect. Except as required by law, we undertake no duty to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements.

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately $ million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. For the purpose of estimating net proceeds, we are assuming that the public offering price will be $ per share. We will not receive any proceeds from the sale of shares by the selling stockholders, nor will we receive any proceeds from the sale of additional shares relating to the underwriters' over-allotment option, if exercised.

The principal purpose of this offering is to establish a public market for our common stock. We expect to use the net proceeds of this offering to fund the opening of new stores and for working capital and general corporate purposes.

We will retain broad discretion over the allocation of the net proceeds of this offering. Pending the uses listed above, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities. We cannot predict whether the proceeds invested will yield a favorable return.

DIVIDEND POLICY

We paid a special $10.0 million cash dividend to our stockholders in August 2004. We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business, and we do not expect to pay cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects and other factors that the board of directors may deem relevant. Additionally, under our credit agreement, we are prohibited from declaring dividends without the prior consent of our lender, subject to certain exceptions, as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

CAPITALIZATION

The following table sets forth our capitalization as of July 3, 2004:

- on an actual consolidated basis;
- on a pro forma basis giving effect to the special $10.0 million cash dividend paid in August 2004 and the automatic conversion of all of our outstanding shares of preferred stock as of this date upon completion of this offering; and
- on a pro forma as adjusted basis giving effect to the special $10.0 million cash dividend paid in August 2004, the automatic conversion of all of our outstanding shares of preferred stock as of this date upon completion of this offering, and the issuance and sale of shares of common stock at an assumed public offering price of $ per share, less underwriting discounts and commissions and estimated offering expenses.

	As of July 3, 2004		
	Actual	Pro Forma	Pro Forma as Adjusted
		(Dollars in thousands, except per share data)	
Cash and cash equivalents	$26,315	$16,315	$
Total debt	—	—	
Redeemable convertible preferred stock, par value $0.01: 25,000,000 aggregate redeemable and nonredeemable preferred shares authorized; 6,134,003 shares issued and outstanding, actual; no shares issued and outstanding, pro forma and pro forma as adjusted	38,875	—	
Stockholders' equity:			
Nonredeemable convertible preferred stock, par value $0.01: 25,000,000 aggregate redeemable and nonredeemable preferred shares authorized; 9,433,518 shares issued and outstanding, actual; no shares issued and outstanding, pro forma and pro forma as adjusted	94	—	
Common stock, par value $0.01: 25,000,000 shares authorized; 419,156 shares issued and outstanding, actual; 17,735,698 shares issued and outstanding, pro forma; shares issued and outstanding, pro forma as adjusted	4	177	
Additional paid-in capital	9,063	47,859	
Retained earnings	21,567	11,567	
Total stockholders' equity	30,728	59,603	
Total capitalization	$69,603	$59,603	

The table above does not include:

- 1,047,283 shares of our common stock issuable upon exercise of options outstanding as of July 3, 2004 under our 2000 Stock Option Plan and our 2002 Stock Incentive Plan, at a weighted average exercise price of $6.52 per share;
- up to 2,073,820 additional shares of our common stock reserved for issuance under our 2004 Stock Incentive Plan;
- 315,797 restricted shares subject to promissory notes from the holders of such shares; and
- a total of 50,000,000 shares of common stock and 15,000,000 shares of preferred stock that will be authorized upon completion of the offering.

You should read this information in conjunction with the information under "Selected Consolidated Financial and Operating Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes appearing elsewhere in this prospectus.

DILUTION

If you invest in our common stock, your interest will be immediately diluted to the extent of the difference between the public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after this offering. Our net tangible book value as of July 3, 2004, was approximately $, or $ per share of our common stock. Net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of common stock outstanding after giving effect to the conversion of all outstanding shares of preferred stock into common stock. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the net tangible book value per share of our common stock immediately afterwards. After giving effect to our sale of shares of common stock offered by this prospectus at an assumed public offering price of $ per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value will be $, or approximately $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution in pro forma net tangible book value of $ per share to new investors purchasing shares of common stock in this offering. The following table illustrates this per share dilution:

Assumed public offering price per share		$
Net tangible book value per share as of July 3, 2004	$	
Increase per share attributable to new investors		
Pro forma net tangible book value per share after this offering		
Dilution per share to new investors		$

The following table sets forth, as of July 3, 2004, the differences between the number of shares of common stock purchased from us, the total consideration paid and average price per share paid by our officers, directors, promoters and their affiliates and by the new investors, before deducting expenses payable by us, assuming a public offering price of $ per share.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Affiliated stockholders		%	$	%	$
New investors					
Total		100.0%	$	100.0%	

The tables above exclude 1,047,283 shares of common stock issuable upon exercise of options outstanding as of July 3, 2004 having a weighted average exercise price of $6.52 per share. Assuming exercise of all of outstanding stock options held by our officers, directors, promoters and affiliates, the pro forma net tangible book value would be reduced and further dilute new investors an additional $ per share, to $ per share.

If the underwriters exercise their over-allotment option in full, the following will occur:

- the number of shares of common stock held by our affiliated stockholders will decrease to approximately % of the total number of shares of common stock outstanding; and
- the number of shares held by new public investors will increase to , or approximately % of the total number of shares of our common stock outstanding after this offering.

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SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following table sets forth, for the periods and dates indicated, our selected consolidated financial and operating data. The balance sheet data as of December 28, 2002 and January 3, 2004 and the statement of operations and other financial data for our fiscal years ended December 29, 2001, December 28, 2002 and January 3, 2004 are derived from our audited financial statements included elsewhere in this prospectus. The balance sheet data as of January 1, 2000, December 30, 2000 and December 29, 2001 and the statement of operations and other financial data for our fiscal years ended January 1, 2000 and December 30, 2000 are derived from our audited financial statements that are not included in this prospectus. The balance sheet data as of July 3, 2004 and the statement of operations and other financial data for the first half of fiscal 2003 and 2004 have been derived from the unaudited interim financial statements included elsewhere in this prospectus. In the opinion of management, our unaudited financial statements have been prepared on a basis consistent with our audited financial statements and include all adjustments, which are only normal and recurring adjustments, necessary for a fair presentation of the financial position and results of operations for the unaudited periods. Operating results for the first half of fiscal 2004 are not necessarily indicative of the results for the fiscal year ending January 1, 2005 or for any future period. You should read our selected consolidated financial and operating data in conjunction with our consolidated financial statements and related notes appearing elsewhere in this prospectus and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

See the notes to our consolidated financial statements for an explanation of the method used to determine the numbers of shares used in computing basic and diluted and pro forma basic and diluted net earnings (loss) per common share.

	Fiscal Year Ended(1)					Pro Forma for the Year Ended	26 Weeks Ended(1)		Pro Forma for the 26 Weeks Ended
	January 1, 2000	December 30, 2000	December 29, 2001	December 28, 2002	January 3, 2004	January 3, 2004(2)	June 28, 2003	July 3, 2004	July 3, 2004(2)
					(In thousands)				
Statement of operations data:									
Total revenues	$18,101	$55,408	$106,622	$169,138	$213,672		$92,583	$135,727	
Costs and expenses:									
Cost of merchandise sold	9,256	29,090	56,708	90,848	116,515		51,929	70,146	
Selling, general and administrative	9,091	23,713	41,100	65,628	81,091		36,084	48,632	
Store preopening	908	2,292	3,124	3,091	3,045		1,491	580	
Impairment charge	—	—	1,006	—	—		—	—	
Litigation settlement	—	—	1,550	—	—		—	—	
Interest expense (income), net	(84)	(98)	64	(88)	(58)		(55)	(98)	
Total costs and expenses	19,171	54,997	103,552	159,479	200,593		89,449	119,260	
Income (loss) before income taxes and minority interest(3)	(1,070)	411	3,070	9,659	13,079		3,134	16,467	
Minority Interest	—	—	122	—	—		—	—	
Income (loss) before income taxes	(1,070)	411	3,192	9,659	13,079		3,134	16,467	
Income tax expense (benefit)(3)	—	(36)	1,287	3,791	5,101		1,285	6,258	
Net income (loss)	(1,070)	447	1,905	5,868	7,978	$7,978	1,849	10,209	$10,209
Cumulative dividends and accretion of redeemable preferred stock	—	343	824	1,971	1,970	—	985	985	—
Cumulative dividends on nonredeemable preferred stock	—	342	455	455	455	—	228	227	—
Net income (loss) attributable to common and participating preferred stockholders	$ (1,070)	$ (238)	$ 626	$ 3,442	$ 5,553	$7,978	$ 636	$ 8,996	$10,209

	Fiscal Year Ended(1)					Pro Forma for the Year Ended	26 Weeks Ended(1)		Pro Forma for the 26 Weeks Ended
	January 1, 2000	December 30, 2000	December 29, 2001	December 28, 2002	January 3, 2004	January 3, 2004(2)	June 28, 2003	July 3, 2004	July 3, 2004(2)
	(In thousands, except per share and per gross square foot data)								
Net income (loss) allocated to common stockholders	$ (1,070)	$ (238)	$ 19	$ 77	$ 124	$ 7,978	$ 14	$ 261	$ 10,209
Net income (loss) allocated to participating preferred stockholders	$ —	$ —	$ 607	$ 3,365	$ 5,429,096	$ —	$ 622	$ 8,735	$ —
Earnings (loss) per common share(4):									
Basic	$ (5.83)	$ (1.09)	$ 0.09	$ 0.35	$ 0.57	$ 0.46	$ 0.07	$ 0.92	$ 0.58
Diluted	$ (5.83)	$ (1.09)	$ 0.07	$ 0.32	$ 0.45	$ 0.44	$ 0.07	$ 0.57	$ 0.57
Shares used in computing per share amounts									
Basic	183,487	217,519	217,519	217,519	217,519	17,534,052	217,519	284,731	17,601,264
Diluted	183,487	217,519	9,101,143	12,055,458	17,546,348	18,006,473	9,367,692	17,938,328	18,031,756
Other financial data:									
Gross margin ($)(5)	$ 8,798	$ 26,144	$ 49,913	$ 78,275	$ 96,912		$ 40,559	$ 65,273	
Gross margin (%)(5)	48.6%	47.2%	46.8%	46.3%	45.4%		43.9%	48.2%	
Capital expenditures(6)	$ 5,833	$ 14,860	$ 21,624	18,718	18,362		$ 10,338	4,438	
Depreciation and amortization	870	2,185	4,588	7,775	11,065		4,939	6,030	
Cash flow data:									
Cash flows provided by (used in) operating activities	$ (472)	$ 7,886	$ 14,482	$ 18,664	$ 25,215		$ (1,004)	10,809	
Cash flows used in investing activities	(6,509)	(15,564)	(23,280)	(20,232)	(20,480)		(11,177)	(5,095)	
Cash flows provided by (used in) financing activities	6,587	12,874	19,256	(121)	—		—	—	
Store data(7):									
Number of stores at end of period	14	39	71	108	150		123	157	
Average net sales per store(8)(9)	$ 2,109	$ 2,205	$ 2,003	$ 1,904	$ 1,605		$ 791	879	
Net sales per gross square foot(9)(10)	$ 746	$ 705	$ 634	$ 582	$ 502		247	287	
Comparable store sales change (%) (11)	18.2%	5.1%	(6.7)%	(9.7)%	(15.9)%		(16.5)%	13.8%	

	As of(1)						
	January 1, 2000	December 30, 2000	December 29, 2001	December 28, 2002	January 3, 2004	July 3, 2004	
						Actual	Pro Forma as Adjusted (12)
	(Dollars in thousands)						
Balance sheet data:							
Cash and cash equivalents	$ 1,901	$ 7,098	$17,555	$15,866	$ 20,601	$ 26,315	
Working capital	5,861	12,418	8,983	4,813	7,724	18,656	
Total assets	16,108	40,086	72,854	93,693	111,964	124,833	
Long-term debt	345	1,404	—	—	—	—	
Redeemable preferred stock	—	12,116	33,964	35,920	37,890	38,875	—
Total stockholders' equity	10,705	10,548	11,628	15,526	21,540	30,728	69,603

(1) Our fiscal year consists of 52 or 53 weeks and ends on the Saturday nearest December 31 in each year. Fiscal years ended December 29, 2001 and December 28, 2002 included 52 weeks and fiscal year ended January 3, 2004 included 53 weeks.

(2) The pro forma statement of operations data for the year ended January 3, 2004 and the 26 weeks ended July 3, 2004 and the pro forma balance sheet data as of July 3, 2004 reflect the pro forma

effect of the mandatory conversion of all preferred stock into shares of common stock in connection with this offering. The conversion ratio assumes the number of shares to be issued upon the conversion of the outstanding preferred stock based upon our Amended and Restated Certificate of Incorporation effective on August 10, 2004, or 17,316,698 shares.

(3) Before April 3, 2000, we were organized as a limited liability company. During that period, we were classified for federal and state income tax purposes as a partnership and as a result paid no income taxes as a corporation. Since April 3, 2000, we have been a C-corporation and have been liable for federal and state income taxes.

(4) Assumes for fiscal years ended January 1, 2000 and December 30, 2000: (i) conversion of membership units for periods prior to our conversion to a C-corporation; and (ii) the tax effect as if we had converted to a C-corporation as of the beginning of 1999. Basic earnings (loss) per common share gives effect to the allocation of net income (loss) available to common stockholders between common and participating preferred shares on a pro rata basis.

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

(6) Capital expenditures consists of leasehold improvements, net of tenant allowances received from landlords, furniture and fixtures and computer equipment and software purchases.

(7) Excludes our webstore and seasonal and event-based locations.

(8) Average net retail sales per store represents net retail sales from stores open throughout the entire period divided by the total number of such stores.

(9) When we refer to average net retail sales per store and net retail sales per gross square foot for any period, we include in those calculations only those stores that have been open for that entire period.

(10) Net retail sales per gross square foot represents net retail sales from stores open throughout the entire period divided by the total gross square footage of such stores.

(11) Comparable store sales percentage changes are based on net retail sales and stores are considered comparable beginning in their thirteenth full month of operation.

(12) On a pro forma as adjusted basis to give effect to the special $10.0 million cash dividend paid in August 2004, the automatic conversion of all of our outstanding shares of preferred stock as of this date upon completion of this offering, and the issuance and sale of shares of common stock at an assumed public offering price of $ per share, less underwriting discounts and commissions and estimated offering expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors" and elsewhere in this prospectus. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this prospectus.

Throughout this prospectus, we refer to our fiscal years ended January 1, 2000, December 30, 2000, December 29, 2001, December 28, 2002 and January 3, 2004 as fiscal years 1999, 2000, 2001, 2002 and 2003, respectively. Our fiscal year consists of 52 or 53 weeks, reported in four 13-week periods, and ends on the Saturday nearest December 31 in each year. Fiscal years 1999, 2000, 2001 and 2002 included 52 weeks and fiscal year 2003 included 53 weeks. When we refer to the first half of fiscal 2003 and 2004, we are referring to the 26-week periods ended June 28, 2003 and July 3, 2004. When we refer to our fiscal quarters, or any three month period ending as of a specified date, we are referring to the 13-week period prior to that date. All of our fiscal quarters presented in this prospectus included 13 weeks, except for the quarter ended January 3, 2004, which had 14 weeks.

Overview

We are the leading, and only national, company providing a "make your own stuffed animal" interactive entertainment experience under the Build-A-Bear Workshop brand, in which our guests stuff, fluff, dress, accessorize and name their own teddy bears and other stuffed animals. Our concept, which we developed for mall-based retailing, capitalizes on what we believe is the relatively untapped demand for experience-based shopping as well as the widespread appeal of stuffed animals. The Build-A-Bear Workshop experience appeals to a broad range of age groups and demographics, including children, teens, their parents and grandparents. As of July 3, 2004, we operated 157 stores in 37 states and Canada and had five franchised stores internationally under the Build-A-Bear Workshop brand. In addition to our stores, we market our products and build our brand through our website, which simulates our interactive shopping experience, as well as in event-based locations and sports venues.

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

- United States and Canadian retail stores, a webstore and seasonal, event-based locations;
- International stores operated under franchise agreements; and
- License arrangements with third parties which manufacture and sell to other retailers merchandise carrying the Build-A-Bear Workshop brand.

Selected financial data attributable to each segment for fiscal 2001, 2002 and 2003 are set forth in note 17 of the notes to our consolidated financial statements included elsewhere in this prospectus.

For a discussion of the key trends and uncertainties that have affected our revenues, income and liquidity, see the "Revenues," "Costs and Expenses" and "Expansion and Growth Potential" subsections of this Overview.

We believe that we have developed an appealing retail store concept that, for stores open for the entire year, averaged $1.6 million in fiscal 2003, $1.9 million in fiscal 2002 and $2.0 million in fiscal 2001 in net retail sales per store, and, for stores open for the entire period, averaged $879 thousand for the first half of fiscal 2004 and $791 thousand in the first half of fiscal 2003 in net retail sales per store. For a discussion of the decrease in comparable store sales in fiscal years 2001 through 2003, see "— Revenues." Store contribution, which consists of net income before income tax expense, interest, store depreciation and amortization, store preopening expense and general and administrative expense, excluding franchise fees, license revenues and contribution from our webstore and seasonal event-based locations, as a percentage of net retail sales, excluding revenue from our webstore and seasonal and event-based locations, was 22.8% for fiscal 2003 and 26.4% for the first half of fiscal 2004, and total company net income as a percentage of total revenues was 3.7% for fiscal 2003 and 7.5% for the first half of fiscal 2004. See "— Non-GAAP Financial Measures" for a reconciliation of store contribution to net income. The store contribution of our average store, coupled with the fact that we have opened 120 stores since the beginning of fiscal 2001 and improved expense management, primarily through improved labor planning and reductions in store supply and other expenses in 2003, have been the primary reasons for our net income increasing during each of the last five fiscal years. Strong comparable store sales for the first half of fiscal 2004, along with the factors cited above, have been the primary reason for our increase in net income in the first half of fiscal 2004 as compared to the first half of fiscal 2003. Additionally, as we have added stores and grown our sales volume, the quantities of merchandise and supplies we purchase have increased which has created economies of scale for our vendors allowing us to obtain reduced costs for these items and increase our profitability.

The increase in total store contribution has been partially offset by the increase in our central office general and administrative expenses required to support an expanding store base and international franchise operations. These expenses have grown at a slower rate, in percentage terms, than our number of stores and net retail sales. In addition, we significantly increased our advertising expenditures in the fourth quarter of fiscal 2003 and the first half fiscal 2004 and expect these expenditures as a percentage of net retail sales to be even greater in the second half of fiscal 2004 compared to the first half of fiscal 2004.

We expect to grow our business primarily through the continued opening of new stores. Further, we expect to grow our net retail sales, including comparable store sales, as a result of the addition of national television and online advertising to our marketing mix in fiscal 2004. We also plan to increase our revenues through increasing the number of international franchised stores, as well as the addition of new licensees and sales of licensed products for which we receive license revenue.

We expect the additional revenue contribution from our increased marketing to be greater than the total expense of the program. By improving our store productivity primarily as a result of comparable store sales increases, we expect to improve our store contribution as a percentage of net retail sales by better leveraging our store level operating expenses, primarily those which are fixed such as occupancy, over increased net retail sales per store. As we grow our total revenues, we also expect to decrease our general and administrative expenses as a percentage of revenues by leveraging these expenses, primarily those which are largely fixed such as management payroll and occupancy, over an increased revenue amount. This decrease will be partially offset by some increases in general and administrative expenses to support more stores and our growing franchise and licensing businesses.

Following is a description and discussion of the major components of our statement of operations:

Revenues

Net retail sales. Net retail sales are revenues from retail sales (including our web store and other non-mall locations), are net of discounts, exclude sales tax, and are recognized at the time of sale. Revenues from gift certificates are recognized at the time of redemption. Our guests use cash, checks and third party credit cards to make purchases. We classify stores as new or comparable stores and do not include our webstore or seasonal, event-based locations in our store count or in our comparable store calculations. Stores enter the comparable store calculation in their thirteenth full month of operation.

We have a frequent shopper program whereby guests who purchase approximately $100 of merchandise receive a card for $10 off a future purchase. An estimate of the obligation related to this program, based on historical redemption rates, is recorded as deferred revenue and a reduction of net sales at the time of original purchase. The deferred revenue obligation is reduced at the time of redemption of the $10 discount.

We use comparable store sales as a key performance measure for our business. The percentage increase (or decrease) in comparable store sales for the periods presented below is as follows:

Fiscal Year Ended			26 Weeks Ended	
December 29, 2001	December 28, 2002	January 3, 2004	June 28, 2003	July 3, 2004
(6.7)%	(9.7)%	(15.9)%	(16.5)%	13.8%

We believe the decrease in comparable store sales from fiscal 2001 through fiscal 2003 was largely the result of four factors:

• A difficult economic environment, including lower consumer confidence levels and a weak retail climate.

• Our inability to increase the number of transactions in comparable stores which we believe was the result of low brand awareness with potential new and repeat guests.

• The transfer to new stores of a portion of existing stores' sales, as we opened new stores in markets where we already operated one or more stores, causing the existing stores' sales to decline, even though total sales in those markets increased. We expect this factor to continue to affect us as we add new stores in markets where we have existing stores.

• The large amount of initial trial sales in the first year a store is open, which we believe results from the distinctive nature of our concept and the publicity we normally receive when we open a new store, does not necessarily continue at that level after this period. We expect this factor to continue to affect us, but it is difficult to predict to what degree, particularly if awareness of our brand continues to grow as a result of our change in marketing strategy.

Comparable store sales increased 13.8% for the first half of fiscal 2004. We believe this change from the previous trend can be attributed primarily to two factors:

• A change in our marketing strategy. During the fourth quarter of fiscal 2003, we tested in a limited number of markets the use of television and online advertising and determined that it was successful in attracting a higher number of new and repeat guests. In the first quarter of fiscal 2004, we implemented this marketing strategy on a national basis and quickly began achieving comparable store sales increases. We anticipate continuing this marketing approach for the foreseeable future.

• An improved economy with higher levels of consumer confidence and a better retail climate.

Franchise fees: We receive an initial, one-time franchise fee per master franchise which is amortized to revenue over the life of the respective franchise agreement. Master franchises rights are typically granted to a franchisee for an entire country. Continuing franchise fees are based on a percentage of sales made by the franchisees' stores and are recognized as revenue at the time of those sales.

As of July 3, 2004, we had five stores under franchise arrangements in the United Kingdom, South Korea, Japan and Denmark. Four of our franchised stores were opened in fiscal 2004.

License revenue: License revenue is based on a percentage of sales made by licensees to third parties and is recognized at the time of those sales.

We have entered into a number of licensing arrangements whereby third parties manufacture and sell to other retailers merchandise carrying the Build-A-Bear Workshop mark. As of July 3, 2004, no license revenue had been recognized. We anticipate receiving license revenues in the second half of fiscal 2004.

Costs and Expenses

Cost of merchandise sold and gross margin: Cost of merchandise sold includes the cost of the merchandise, freight costs from the manufacturer to the store, cost of warehousing and distribution, packaging, damages and shortages and store occupancy cost, including store depreciation. Gross margin is defined as net retail sales less the cost of merchandise sold.

We have been able to reduce the unit costs of our merchandise and packaging through economies of scale realized as our sales volume has grown. The increase in sales volume has also allowed us to reduce our freight, cost of warehousing and distribution costs as a percentage of net retail sales as a result of the cost efficiencies of shipping higher volumes of merchandise. We expect these efficiencies to continue in the future.

Selling, general and administrative expense: These expenses include store payroll and benefits, advertising, credit card fees, and store supplies, as well as central office general and administrative expenses, including management payroll, benefits, travel, information systems, accounting, insurance, legal and public relations. This line item also includes depreciation and amortization of central office leasehold improvements, furniture, fixtures and equipment as well as the amortization of intellectual property costs.

Central office general and administrative expenses have grown over time in order to support the increased number of stores in operation and we believe will continue to grow as we add stores, but we expect this increase to be at a lower rate than the percentage increase in total revenues. Store advertising has increased significantly with the introduction in fiscal 2004 of our national television and online advertising campaign and we anticipate increasing advertising expense as a percentage of net retail sales in the second half of fiscal 2004. Increases in comparable store sales results beginning in fiscal 2004 as well as improvements in store labor planning in the latter half of fiscal 2003 have resulted in lower store payroll as a percentage of net retail sales for the first half of fiscal 2004. Other store expenses such as credit card fees and supplies historically have increased or decreased proportionately with net retail sales.

Store preopening: Preopening costs are expensed as incurred and include the expenses related to training, recruiting, utilities and supplies prior to a store's opening.

Impairment charge: This includes the provision to write down to estimated net realizable value the long-lived assets of any store for which we have determined the carrying value will not be recovered through cash flows from future operations.

Income taxes: Prior to April 3, 2000, we were organized as a limited liability company. During that period, we were classified for federal income tax purposes as a partnership and accordingly paid no income taxes as a corporation. Effective April 3, 2000, we were reorganized as a C-corporation under the Internal Revenue Code and since then have been liable for federal and state income taxes.

Expansion and Growth Potential

U.S. and Canadian Stores:

The number of Build-A-Bear Workshop stores in the United States and Canada for the last three and one-half fiscal years can be summarized as follows:

	Fiscal Year Ended			26 Weeks Ended	
	December 29, 2001	December 28, 2002	January 3, 2004	June 28, 2003	July 3, 2004
Beginning of period	39	71	108	108	150
Opened	32	37	43	16	8
Closed	—	—	(1)	(1)	(1)
End of period	71	108	150	123	157

For the entire year of fiscal 2004, we anticipate opening a total of 21 Build-A-Bear Workshop stores and in fiscal 2005, we anticipate opening between 25 and 30 Build-A-Bear Workshop stores in the United States and Canada and closing one store. We believe there is a market potential for approximately 350 Build-A-Bear Workshop stores in the United States and Canada. In fiscal 2003, we began testing in certain markets our initial brand expansion initiative, our proprietary "Friends 2B Made" line of make-your-own dolls and related products. Currently this merchandise is offered from a separate display fixture in select Build-A-Bear Workshop stores. Later in fiscal 2004, we anticipate opening two Friends 2B Made stores adjacent and connected to existing Build-A-Bear Workshop stores. After a reasonable test period, we will evaluate further expansion of this concept and alternative distribution channels.

Non-Store Locations:

In 2004 we began offering merchandise in seasonal, event-based locations such as Citizens Bank Park, home of the Philadelphia Phillies baseball club, as well as at temporary locations such as at the NBA All-Star Jam Session. We expect to expand our future presence at select seasonal, event-based locations contingent on their availability, which cannot reasonably be predicted at this time.

International Franchise Revenue:

Our first franchisee location was opened in November 2003. The number of international, franchised stores opened since that time can be summarized as follows:

	Fiscal Year Ended January 3, 2004	26 Weeks Ended July 3, 2004
Beginning of period	—	1
Opened	1	4
Closed	—	—
End of period	1	5

We expect our current six franchisees to open a total of eight to twelve stores during fiscal 2004, of which four have already opened. Thereafter, we anticipate signing additional master franchise agreements, which typically grant franchise rights for a particular country. We expect our current and future franchisees to open between 15 and 20 stores in fiscal 2005. We believe there is a market potential for approximately 350 franchised stores outside of the United States and Canada. To date, franchise revenue has been minimal.

License Revenue:

In fiscal 2004, we began entering into license agreements pursuant to which we receive royalties on Build-A-Bear Workshop brand products. As of July 3, 2004 we have had no license revenue. Because we recently entered into these agreements, we cannot predict the revenue these agreements may produce in the future.

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 may not total due to cost of merchandise sold being expressed as a percentage of net retail sales and rounding:

	Fiscal Year Ended			26 Weeks Ended	
	December 29, 2001	December 28, 2002	January 3, 2004	June 28, 2003	July 3, 2004
Revenues:					
Net retail sales	100.0%	100.0%	99.9%	99.9%	99.8%
Franchise fees	0.0	0.0	0.1	0.1	0.2
Total revenues	100.0	100.0	100.0	100.0	100.0
Costs and expenses:					
Cost of merchandise sold	53.2	53.7	54.6	56.1	51.8
Selling, general and administrative	38.5	38.8	38.0	39.0	35.8
Store preopening	2.9	1.8	1.4	1.6	0.4
Impairment charge	0.9	0.0	0.0	0.0	0.0
Litigation settlement	1.5	0.0	0.0	0.0	0.0
Interest expense (income), net	0.1	(0.1)	0.0	(0.1)	(0.1)
Total costs and expenses	97.1	94.3	93.9	96.6	87.9
Minority interest	0.1	0.0	0.0	0.0	0.0
Income before income taxes	3.0	5.7	6.1	3.4	12.1
Income tax expense	1.2	2.2	2.4	1.4	4.6
Net income	1.8%	3.5%	3.7%	2.0%	7.5%
Gross margin (%)(1)	46.8%	46.3%	45.4%	43.9%	48.2%

(1) Gross margin percentage represents gross margin divided by net retail sales.

First Half of Fiscal 2004 (26 weeks) Compared to First Half of Fiscal 2003 (26 weeks)

Total revenues. Net retail sales increased to $135.4 million for the first half of fiscal 2004 from $92.5 million for the first half of fiscal 2003, an increase of $42.9 million, or 46.4%. Net retail sales for new stores as well as our webstore and other non-store locations contributed a $34.0 million increase in net retail sales. Comparable store sales increased $8.9 million, or 13.8%, which we believe was primarily the result of the introduction of our new national television and online marketing campaign, as well as an improved economy. We also believe the results include the positive impact of being featured in one segment of a nationally syndicated television show in the first quarter of fiscal 2004.

Gross margin. Gross margin increased to $65.3 million for the first half of fiscal 2004 from $40.6 million for the first half of fiscal 2003, an increase of $24.7 million, or 60.9%. As a percentage of net retail sales, gross margin increased to 48.2% for the first half of fiscal 2004 from 43.9% for the first half of fiscal 2003, an increase of 4.3%. Lower occupancy cost as a percentage of net retail sales, resulting from strong comparable store sales increases, accounted for 2.1% of this increase. Lower product, supplies, warehousing and distribution costs, as a percentage of net retail sales, resulting from purchasing cost efficiencies related to higher sales volumes, accounted for 1.8% of the increase in gross margin.

Selling, general and administrative. Selling, general and administrative expenses were $48.6 million for the first half of fiscal 2004 as compared to $36.1 million for the first half of fiscal 2003, an increase of $12.5 million, or 34.8%. As a percentage of total revenues, selling, general and administrative expenses decreased to 35.8% for the first half of fiscal 2004 as compared to 39.0% for the first half of fiscal 2003, a decrease of 3.2%. The dollar increase was primarily due to 34 more stores in operation at July 3, 2004 as compared to June 28, 2003 as well as higher central office expenses, primarily payroll, required to support a larger store base and $5.5 million in additional advertising expense related to the national television and online marketing campaign which began in fiscal 2004. Leveraging central office general and administrative expenses over higher revenues accounted for a 3.1% decrease in selling, general and administrative expenses as a percentage of total revenues. Leveraging store payroll expenses in comparable stores, due to sales increases in these stores, accounted for a 2.5% decrease. These decreases were partially offset by higher advertising expense which accounted for a 3.2% increase in selling, general and administrative expenses as a percentage of total revenues.

Store preopening. Store preopening expense was $0.6 million for the first half of fiscal 2004 as compared to $1.5 million for the first half of fiscal 2003. Eight fewer new stores were opened in the first half of fiscal 2004 than in fiscal 2003 (eight in fiscal 2004 as compared to 16 in fiscal 2003) and we expect 14 fewer stores to be opened during the remainder of fiscal 2004 than in fiscal 2003. Preopening expenses include expenses for stores that have opened as well as some expenses incurred for stores that will be opened at a later date.

Interest expense (income), net. Interest income, net of interest expense, was $0.1 million for both the first half of fiscal 2004 and fiscal 2003.

Provision for income taxes. The provision for income taxes was $6.3 million for the first half of fiscal 2004 as compared to $1.3 million for the first half of fiscal 2003. The effective tax rate was 38% for the first half of fiscal 2004 and 41% for the first half of fiscal 2003. The reduction in the effective tax rate was due to a lower aggregate state tax rate as a result of restructuring our legal entities to more appropriately allocate central office general and administrative expenses to our store operations.

Fiscal Year Ended January 3, 2004 (53 weeks) Compared to Fiscal Year Ended December 28, 2002 (52 weeks)

Total revenues. Net retail sales increased to $213.4 million for fiscal 2003 from $169.1 million for fiscal 2002, an increase of $44.3 million, or 26.2%. Net retail sales for new stores as well as our webstore and other non-store locations contributed a $61.1 million increase in net retail sales. Comparable store sales decreased $25.8 million, or 15.9%. We believe this decrease was primarily due to economic conditions, low brand awareness with potential new and repeat guests, a loss of sales from existing stores to new stores when we open new stores in existing markets and a decrease in sales of stores in their second year of operation due to a large amount of initial trial sales in the first year which do not continue at that level after this period. Fiscal 2003 had one more week than fiscal 2002 (the 53rd week) and net retail sales in that week were $9.0 million.

Gross margin. Gross margin increased to $96.9 million for fiscal 2003 from $78.3 million for fiscal 2002, an increase of $18.6 million, or 23.8%. As a percentage of net retail sales, gross margin decreased to 45.4% for fiscal 2003 compared to 46.3% for fiscal 2002, a decrease of 0.9%. The loss of leverage on occupancy cost in comparable stores due to overall sales decreases in these stores accounted for a 2.1% decrease. This was partially offset by lower product and supplies cost as a percentage of net retail sales, as a result of buying efficiencies related to larger purchasing volumes, which accounted for a 1.6% increase.

Selling, general and administrative. Selling, general and administrative expenses were $81.1 million for fiscal 2003 as compared to $65.6 million for fiscal 2002, an increase of $15.5 million, or 23.6%. As a percentage of total revenues, selling, general and administrative expenses decreased to 38.0% for fiscal 2003 as compared to 38.8% for fiscal 2002, a decrease of 0.8%. The dollar increase was primarily due to 42 more stores in operation at the end of fiscal 2003 as compared to the end of fiscal 2002, higher central office general and administrative expenses required to support a larger store base and $2.6 million in incremental advertising expense incurred in the fourth quarter of fiscal 2003 to develop and test a television and online advertising campaign in selected markets. Of the 0.8% decrease in selling, general and administrative expenses as a percentage of total revenues, leveraging central office general and administrative expense over a larger sales base accounted for a 2.0% decrease and reductions in store supplies and other expenses accounted for a 0.8% decrease. These decreases were partially offset by the expense related to the testing of our new advertising campaign, which accounted for a 1.5% increase in selling, general and administrative expenses as a percentage of total revenues, as well as the loss of leverage on payroll expense in comparable stores, due to lower sales in these stores, which accounted for a 0.4% increase.

Store preopening. Store preopening expense was $3.0 million for fiscal 2003 as compared to $3.1 million for fiscal 2002. Six more new stores were opened in fiscal 2003 than in fiscal 2002 (43 as compared to 37). The average preopening expense per store was $71 thousand in fiscal 2003 as compared to $84 thousand in fiscal 2002, a decrease of 15.2%. This decrease in average preopening expense per store was largely the result of reduced training related expenses by using regional training locations versus one location previously as well as reduced startup supplies expense as a result of improved purchasing power due to the increases in sales volumes.

Interest expense (income), net. Interest income, net of interest expense, was $0.1 million for both fiscal 2003 and 2002.

Provision for income taxes. The provision for income taxes was $5.1 million for fiscal 2003 as compared to $3.8 million in fiscal 2002. The effective tax rate was 39% in both fiscal 2003 and 2002.

Fiscal Year Ended December 28, 2002 (52 weeks) Compared to Fiscal Year Ended December 29, 2001 (52 weeks)

Total revenues. Net retail sales increased to $169.1 million for fiscal 2002 from $106.6 million for fiscal 2001, an increase of $62.5 million, or 58.6%. Net retail sales for new stores as well as our webstore and other non-store locations contributed a $72.3 million increase in net retail sales. Comparable store sales decreased $9.9 million, or 9.7%. We believe this decrease was due to economic conditions, low brand awareness with potential new and repeat guests, a loss of sales from existing stores to new stores when we open new stores in existing markets and a decrease in sales of stores in their second year of operation due to a large amount of initial trial sales in the first year which do not continue at that level after this period.

Gross margin. Gross margin increased to $78.3 million for fiscal 2002 from $49.9 million for fiscal 2001, an increase of $28.4 million, or 56.8%. As a percentage of net retail sales, gross margin decreased to 46.3% for fiscal 2002 compared to 46.8% for fiscal 2001, a decrease of 0.5%. The loss of leverage on occupancy cost in comparable stores, resulting from overall sales decreases in these stores, accounted for a 1.2% decrease, which was partially offset by lower product and supplies cost as a percentage of net retail sales, which accounted for a 0.8% increase.

Selling, general and administrative. Selling, general and administrative expenses were $65.6 million for fiscal 2002 as compared to $41.1 million for fiscal 2001, an increase of $24.5 million, or 59.7%. As a percentage of total revenues, selling, general and administrative expenses increased to 38.8% for fiscal 2002 as compared to 38.5% for fiscal 2001, an increase of 0.3%. The dollar increase was primarily due to 37 more stores in operation at the end of fiscal 2002 as compared to the end of fiscal 2001 as well as higher central office general and administrative expenses required to support a larger store base. Of the 0.3% increase in selling, general and administrative expenses as a percentage of total revenues, the loss of leverage on payroll expense in comparable stores, due to lower sales in these stores, accounted for a 0.5% increase, and higher advertising expense accounted for a 0.3% increase. These increases were partially offset by leveraging central office general and administrative expenses over a larger revenue base which accounted for a 0.5% decrease in selling, general and administrative expenses as a percentage of total revenues.

Store preopening. Store preopening expense was $3.1 million for fiscal 2002 as compared to $3.1 million for fiscal 2001. Five more new stores were opened in fiscal 2002 than in fiscal 2001 (37 as compared to 32). The average expense per store was $84 thousand in fiscal 2002 as compared to $98 thousand in fiscal 2001, a 14.4% decrease. This reduction in average preopening expense per store was primarily the result of a reduction in the number of weeks of training prior to store opening for store management as well as reduced startup supplies expense as a result of improved purchasing power due to the increases in sales volumes.

Litigation settlement. We were a party to a lawsuit in which a competitor alleged that we misappropriated certain trade secrets and other intellectual property. During fiscal 2001, the matter was resolved through a confidential settlement agreement and an expense charge of $1.6 million was recorded. Our insurance carrier paid an additional $0.7 million towards the settlement.

Impairment charge. During fiscal 2001, we identified three stores that were not meeting operating objectives and determined those stores were impaired. We recorded a provision for impairment of $1.0 million which included a write down for property, equipment and other assets and accrued expenses to be incurred in connection with the closing of these stores upon the exercise of the early termination provisions contained in these leases.

Interest expense (income), net. Interest income, net of interest expense, was $0.1 million for fiscal 2002. Interest expense, net of interest income, was $0.1 million for fiscal 2001.

Provision for income taxes. The provision for income taxes was $3.8 million for fiscal 2002 as compared to $1.3 million for fiscal 2001. The effective tax rate is 39% in fiscal 2002 and 40% in fiscal 2001. The reduction in the effective tax rate was due to the change in the aggregate state income tax rate as a result of the mix of stores opening in different states during these years.

Non-GAAP Financial Measures

We use the term “store contribution” throughout this prospectus. Store contribution consists of net income before income tax expense, interest, store depreciation and amortization, store preopening expense and general and administrative expense, excluding franchise fees, license revenues and contribution from our webstore and seasonal and event-based locations. This term, as we define it, may not be comparable to similarly titled measures used by other companies and is not a measure of performance presented in accordance with GAAP.

We use store contribution as a measure of our stores’ operating performance. Store contribution should not be considered a substitute for net income, net income per store, cash flows provided by operating activities, cash flows provided by operating activities per store, or other income or cash flow data prepared in accordance with GAAP.

We believe store contribution is useful to investors in evaluating our operating performance because it, along with the number of stores in operation, directly impacts our profitability. Historically, central office general and administrative expenses and preopening expenses have increased at a rate less than our total net retail sales increases. Therefore, as we have opened additional new stores and leveraged our central office general and administrative and preopening expenses over this larger store base and sales volume, we have been able to increase our net income each year as well as for the first half of fiscal 2004 as compared to the first half of fiscal 2003.

The following table sets forth a reconciliation of store contribution to net income:

	Fiscal Year Ended January 3, 2004	26 Weeks Ended July 3, 2004
	(Dollars in thousands)	
Net income	$ 7,978	$ 10,209
Income tax expense	5,101	6,258
Interest expense (income)	(58)	(98)
Store depreciation and amortization(1)	8,119	4,477
Store preopening expense	3,045	580
General and administrative expense(2)	25,098	14,576
Non-store activity contribution(3)	(1,622)	(1,195)
Store contribution	$ 47,661	$ 34,807
Total revenues	$213,672	$135,727
Revenues from non-store activities(3)	$ (4,726)	$ (3,691)
Store location net retail sales	$208,946	$132,036
Store contribution as a percentage of store location net retail sales	22.8%	26.4%
Total net income as a percentage of total revenues	3.7%	7.5%

(1) Store depreciation and amortization includes depreciation and amortization of all capitalized assets in store locations, including leasehold improvements, furniture and fixtures, and computer hardware and software.

(2) General and administrative expenses consist of non-store, central office general and administrative functions such as management payroll and related benefits, travel, information systems, accounting, purchasing and legal costs as well as the depreciation and amortization of central office leasehold improvements, furniture and fixtures, computer hardware and software and intellectual property. General and administrative expenses also include a central office marketing department, primarily payroll and related benefits expense, but exclude advertising expenses, such as direct mail catalogs and television advertising, which are included in store contribution.

(3) Non-store activities include our webstore, seasonal and event-based locations and franchising and licensing activities.

Seasonality and Quarterly Results

The following is a summary of certain unaudited quarterly results of operations data for each of the last two fiscal years and for the first half of fiscal 2004.

	Fiscal Year Ended December 28, 2002				Fiscal Year Ended January 3, 2004				Fiscal 2004	
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter(1)	First Quarter(2)	Second Quarter
	(Dollars in millions, except per share data)									
Total revenues	$37.2	$ 36.9	$42.3	$52.6	$47.9	$ 44.7	$48.0	$73.1	$69.6	$66.1
Gross margin	17.7	16.8	19.2	24.5	21.5	19.1	20.4	35.9	33.5	31.7
Net income	2.6	0.2	1.1	2.0	1.4	0.5	0.9	5.3	5.3	4.9
Earnings per share:										
Basic	0.20	(0.04)	0.05	0.14	0.08	(0.01)	0.03	0.48	0.48	0.44
Diluted	0.15	(0.04)	0.05	0.11	0.08	(0.01)	0.03	0.30	0.30	0.27
Number of stores (end of quarter)	73	87	100	108	109	123	143	150	151	157

(1) Results for the fourth quarter of fiscal 2003 were impacted by the following:

- The quarter contained 14 weeks rather than the typical 13 weeks. Total revenues for the extra week were $9.0 million.

- The deferred revenue balance was adjusted to reflect projected redemption rates in our frequent shopper program. This resulted in a reduction in the deferred revenue balance and a corresponding increase in total revenues and gross margin of $1.1 million.

- We incurred $2.6 million in incremental selling, general and administrative expenses to develop and test a new television and online advertising campaign in selected markets.

(2) The results of this quarter include what we believe is the positive impact of being featured in one segment of a nationally syndicated television show.

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 those discussed under "Risk Factors — Fluctuations in our quarterly results of operations could cause the price of our common stock to substantially decline."

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

Historically, for stores open more than twelve months, seasonality has not been a significant factor in our results of operations, although we cannot assure you that this will continue to be the case. 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, including the quarter ended January 3, 2004. Quarterly fluctuations and seasonality may cause our operating results to fall below the expectations of securities analysts and investors, which could cause our stock price to fall.

Liquidity and Capital Resources

Our cash requirements are primarily for the opening of new stores, information systems and working capital. Historically, we have met these requirements through capital generated from the sale and issuance of our securities to private investors, cash flow provided by operations and our revolving line of credit. From our inception to December 2001, we raised at various times a total of $44.9 million in capital from several private investors. Since fiscal 2002, cash flows provided by operating activities have exceeded cash flows used in investing activities.

Operating Activities. Cash provided by (used in) from operating activities were $14.5 million in fiscal 2001, $18.7 million in fiscal 2002 and $25.2 million in fiscal 2003, and were $(1.0) million in the first half of fiscal 2003 compared to $10.8 million for the first half of fiscal 2004. Cash flow from operating activities increased each period primarily due to increases in net income adjusted for the impact of depreciation and amortization. Changes in current assets and liabilities, excluding cash, provided (used) cash of $6.7 million in fiscal 2001, $3.4 million in fiscal 2002, $4.0 million in fiscal 2003, and $(8.5) million for the first half of fiscal 2003 compared to $(5.2) million for the first half of fiscal 2004. The increases in operating cash flows for changes in current assets and liabilities, excluding cash, for the fiscal years 2001 through 2003 were primarily due to increases in gift certificates and deposits, due to the significant sale of gift certificates in December each year; increases in accounts payable and accrued expenses due to the growth of the number of stores in operation at each year-end; and increases in the deferred revenue balance. The increases in operating cash flow for the above reasons were partially offset by increases in inventory due to the growth of the number of stores in operation. For the first half of fiscal 2003, the primary reason for the $(8.5) million change in current assets and liabilities, excluding cash, was a decrease in accounts payable and accrued expenses due to the paydown of these amounts from the end of fiscal 2002. For the first half of fiscal 2004, the primary reason for the $(5.2) million change in current assets and liabilities, excluding cash, was an increase in inventory to support the comparable store sales increases during the period. We require an increase in working capital, specifically inventory, during the year. Inventory typically peaks during the third and fourth quarters of each year due to the strong selling periods of summer and the month of December.

Investing Activities. Cash flows used in investing activities were $23.3 million in fiscal 2001, $20.2 million in fiscal 2002 and $20.5 million in fiscal 2003, and were $11.2 million in the first half of fiscal 2003 compared to $5.1 million for the first half of fiscal 2004. Cash used in investing activities relates primarily to 32 new stores opened in fiscal 2001, 37 in fiscal 2002, 43 in fiscal 2003, 16 in the first half of fiscal 2003 and eight in the first half of fiscal 2004. The costs of registering our intellectual property rights and certain costs related to the designing and leasing of stores were $1.7 million in fiscal 2001, $1.6 million in fiscal 2002 and $1.9 million in fiscal 2003, and $0.6 million in the first half of fiscal 2003 compared to $0.7 million for the first half of fiscal 2004.

Financing Activities. There were no cash flows from financing activities in fiscal 2003 and for the first half of fiscal 2004. Cash flows provided by (used in) financing activities were $19.3 million in fiscal 2001 and $(0.1) million in fiscal 2002. We raised private equity of $21.0 million in fiscal 2001. We had debt repayments of $1.8 million in fiscal 2001 and $0.1 million in fiscal 2002 and no debt repayments in fiscal 2003. Maximum borrowings under our line of credit were $3.3 million in fiscal 2003, $2.0 million in fiscal 2002 and $7.2 million in fiscal 2001. No borrowings were made under our line of credit in the first half of fiscal 2004 or the first half of fiscal 2003. We paid a special cash dividend in August 2004 of $10.0 million to our stockholders.

Capital Resources. As of July 3, 2004, we had a cash balance of $26.3 million. We also have a $15.0 million line of credit, which we use to finance capital expenditures and seasonal working capital needs throughout the year. The credit agreement is with U.S. Bank, National Association, is secured by the assets of Build-A-Bear Workshop, Inc. and most of our subsidiaries, and is guaranteed by our Canadian subsidiary. The credit agreement expires on May 31, 2005 and contains various restrictions on indebtedness, liens, guarantees, redemptions, mergers, acquisitions or sale of assets, loans, transactions with affiliates, and investments. It also prohibits us from declaring dividends without the bank’s prior consent, unless such payment of dividends would not violate any terms of the loan agreement and so long as the difference between the maximum amount that may be borrowed under the line of credit and the amount outstanding under the line of credit is greater than $5.0 million. Borrowings bear interest at the prime rate less 0.5%. Financial covenants include maintaining a minimum tangible net worth and a maximum funded debt to EBITDA ratio. As of July 3, 2004, we were in compliance with these covenants. There were no borrowings under our line of credit as of January 3, 2004 and July 3, 2004.

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

In fiscal 2004, we expect to spend a total of approximately $12.0 million on capital expenditures, primarily for opening a total of 21 new stores, as well as for the continued installation and upgrades of central office information technology systems. In fiscal 2005, we expect to spend a total of approximately $20.0 million to $22.0 million on capital expenditures, primarily for opening a total of 25 to 30 new stores, as well as for the continued installation and upgrades of central office information technology systems. In fiscal 2003, the average investment per new store, which includes leasehold improvements (net of tenant allowances), fixtures and equipment, was approximately $350 thousand. We anticipate the investment per store in fiscal 2004 and fiscal 2005 will be approximately the same, excluding a flagship store we anticipate opening at a cost of approximately $5.0 million in fiscal 2005.

As of July 3, 2004, there were no merchandise or expense purchases made using letters of credit. Subsequent to July 3, 2004, we issued a $1.1 million standby letter of credit in connection with a new lease. We believe that cash generated from operations and borrowings under our credit agreement, together with the proceeds of this offering, will be sufficient to fund our working capital and other cash flow requirements for at least the next 18 months. Our current credit agreement expires May 31, 2005. We expect to enter into a new credit agreement at that time. Should we be unable to put a new credit agreement into place after May 31, 2005, we do not expect this to have a material impact on our ability to fund our working capital and other cash flow requirements for at least the next 18 months.

Off-Balance Sheet Arrangements

We do not have any arrangements classified as off-balance sheet arrangements.

Contractual Obligations and Commercial Commitments

Our contractual obligations and commercial commitments include future minimum obligations under operating leases and purchase obligations associated with building out our stores. The future minimum payments for these obligations as of July 3, 2004 for periods subsequent to this date are as follows:

	Payments Due by Fiscal Period as of July 3, 2004						
	Total	2004	2005	2006	2007	2008	Beyond
	(In thousands)						
Long-term debt obligations	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Operating lease obligations	187,940	9,760	22,399	22,713	23,004	23,219	86,845
Purchase obligations	3,685	3,419	178	73	15	—	—
Total	$191,625	$13,179	$22,577	$22,786	$23,019	$23,219	$86,845

Inflation

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

Critical Accounting Policies

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

We believe application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are periodically reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

Our accounting policies are more fully described in note 1 to our consolidated financial statements, which appear elsewhere in this prospectus. We have identified certain critical accounting policies which are described below.

Inventory

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

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

Long-Lived Assets

If facts and circumstances indicate that a long-lived asset, including property and equipment, may be impaired, the carrying value is reviewed. If this review indicates that the carrying value of the asset will not be recovered as determined based on projected undiscounted cash flows related to the asset over its remaining life, the carrying value of the asset is reduced to its estimated fair value. During fiscal 2001, we recorded an asset impairment charge for three stores totaling $1.0 million. Impairment losses in the future are dependent on a number of factors such as site selection and general economic trends, and thus could be significantly different than historical results. To the extent our estimates for net sales, gross profit and store expenses are not realized, future assessments of recoverability could result in additional impairment charges.

Revenue Recognition

Revenues from retail sales, net of discounts and excluding sales tax, are recognized at the time of sale. Guest returns have not been significant. Revenues from gift certificates are recognized at the time of redemption. Unredeemed gift certificates are reflected as an other liability in the financial statements.

We have a frequent shopper program whereby guests who purchase approximately $100 of merchandise receive a card for $10 off a future purchase. An estimate of the obligation related to the program, based on historical redemption rates, is recorded as deferred revenue and a reduction of net sales at the time of original purchase. The deferred revenue obligation is reduced at the time of redemption of the $10 discount.

We evaluate the ultimate redemption rate under this program through the use of frequent shopper cards which have an expiration date after which the frequent purchase discount would not have to be honored. The initial card had no expiration date but has not been provided to our guests since May 2002. Beginning in June 2002, cards were issued that had an expiration date of December 31, 2003. Beginning in June 2003, cards were issued with an expiration date of December 31, 2004. We track redemptions of these various cards and use actual redemption rates by card series and historical results to estimate how much revenue to defer. We review these redemption rates and assess the adequacy of the deferred revenue account at the end of each second quarter and each fiscal year. Based on this assessment at the end of fiscal 2003, the deferred revenue account was adjusted downward by $1.1 million with a corresponding increase to net sales. Additionally, the amount of revenue being deferred beginning in fiscal 2004 was decreased from the previous deferral rate. Our assessment of the deferred revenue balance as of July 3, 2004 resulted in no adjustment to the balance of the deferred revenue amount. However, the amount of revenue being deferred beginning with the third quarter of fiscal 2004 was further reduced. We believe that the newly introduced national television and online advertising campaign introduced in fiscal 2004 is increasing the mix of new, non-frequent guests as compared to the historical mix and is anticipated to result in a lower overall redemption rate for the frequent buyer program. A 0.1% adjustment of the ultimate redemption rate at the end of fiscal 2004 for the current card expiring December 31, 2004 would have an approximate impact of $0.5 million on the deferred revenue balance and net sales.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards (SFAS) 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, was issued in May 2003. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. In November 2003, the FASB issued Staff Position No. 150-3, which deferred the effective dates for applying certain provisions of SFAS 150 related to mandatorily redeemable interests for public and nonpublic entities.

For public entities, SFAS 150 is effective for mandatorily redeemable financial instruments entered into or modified after May 31, 2003, and is effective for all other financial instruments as of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 is not expected to have an impact on our financial position, results of operations or cash flows.

In March 2004, the Emerging Issues Task Force completed its discussion of and provided consensus guidance on Issue No. 03-6, *Participating Securities and The Two-Class Method under FASB Statement No. 128, Earnings Per Share.* The consensus interpreted the definition of a "participating security," required the use of the two-class method in the calculation and disclosure of basic earnings per share, and provided guidance on the allocation of earnings and losses for purposes of calculation of basic earnings per share. Certain of our classes of preferred stock are entitled to participate in cash dividends on common stock. Accordingly, this consensus has been applied in the calculation of basic earnings per share for all periods presented.

Quantitative and Qualitative Disclosures About Market Risk

Our market risks relate primarily to changes in interest rates. We bear this risk in two specific ways. First, our revolving credit facility carries a variable interest rate that is tied to market indices and, therefore, our statement of income and our cash flows will be exposed to changes in interest rates. As of July 3, 2004, we had no borrowings. Outstanding balances under our credit facility bear interest at a rate of prime less 0.5%. Based on the weighted average borrowings outstanding during fiscal 2003 of approximately $0.3 million, a 100 basis point change in interest rates would result in an no material change to our annual interest expense. The second component of interest rate risk involves the short term investment of excess cash in short term, investment grade interest-bearing securities. These investments are considered to be cash equivalents and are shown that way on our balance sheet. If there are changes in interest rates, those changes would affect the investment income we earn on these investments and, therefore, impact our cash flows and results of operations.

BUSINESS

Overview

We are the leading, and only national, company providing a "make your own stuffed animal" interactive entertainment experience. As of July 3, 2004, we operated 157 stores in 37 states and Canada and had five franchised stores internationally, all under the Build-A-Bear Workshop brand. Our concept is based on our guests creating, personalizing and customizing their stuffed animals, and capitalizes on what we believe is the relatively untapped demand for experience-based shopping as well as the widespread appeal of stuffed animals.

We offer an extensive and coordinated selection of merchandise, including over 30 different styles of animals to be stuffed and a wide variety of clothing, shoes and accessories for the stuffed animals. Our concept appeals to a broad range of age groups and demographics, including children, teens, parents and grandparents. We believe that our stores, which are primarily located in malls, are destination locations and draw guests from a large geographic reach. Our stores average 3,100 square feet in size and have a highly visual and colorful appearance, including custom-designed fixtures featuring teddy bears and other themes relating to the Build-A-Bear Workshop experience. In addition to our mall-based stores, we market our products and build our brand through our website and event-based locations such as the NBA All-Star Jam Session, and sports venues such as the Philadelphia Phillies' Citizens Bank Park, where we operate a Make Your Own Phanatic™ by Build-A-Bear Workshop store.

During fiscal 2003, we developed and tested in select markets a multi-media marketing program targeting our core demographic guests, principally parents and children. The program incorporated consistent messaging across a variety of media, including television, online and direct mail advertising. We designed the program to increase our brand awareness and store traffic and attract more first-time and repeat guests. We introduced this program nation-wide in February 2004 and have experienced an increase in our comparable store sales in every month since the rollout.

Since opening our first store in St. Louis, Missouri in October 1997, we have sold over 20 million stuffed animals. We have grown our store base from 14 stores at the end of fiscal 1999 to 157 as of July 3, 2004 and increased our revenues from $106.6 million in fiscal 2001 to $213.4 million in fiscal 2003, for a compound annual revenue growth rate of 41.6%, and increased net income from $1.9 million in fiscal 2001 to $8.0 million in fiscal 2003, for a compound annual net income growth rate of 104.6%.

We have received several industry awards which recognized our achievements with respect to growth, design, concept and concept execution. For example, we were one of six retailers to receive the "2004 Hot Retailer Award" from the International Council of Shopping Centers, based on a survey of nearly 3,000 North American shopping center management professionals, and we were the sole recipient of the "Retail Innovator of the Year" award from the National Retail Federation in 2001, recognizing "a merchant's singular, innovative approach to the retail trade."

Competitive Strengths

We offer an exciting interactive shopping experience.

Unlike most other mall-based retail stores, the Build-A-Bear Workshop experience is not exclusively product driven but rather integrates the stuffed animal-making process with our creative merchandise selection. Our highly visual and colorful stores feature a teddy bear theme, displays of numerous, fully-dressed stuffed animals and the selective use of special "bear" phrases such as "A hug is worth a thousand words," "Be the bearer of good news" and "Ask not what a bear can do for you, but what you can do for a bear," that decorate the walls of our stores. Our stores also include custom-designed features with larger-than-life details, including a moving Sentry Bear holding a large needle at the store's opening, an exaggerated bathtub where our guests can fluff their new stuffed animals, and a 10-foot tall zipper column in the dressing area. Our fixtures are themed to our store design, including bins that look like spools of thread and display fixtures with bear head shapes, and our floors feature a customized tile inlay of the

Build-A-Bear Workshop logo. These elements are collectively intended to immerse our guests in the teddy bear theme and add excitement to the shopping experience. We offer our guests an opportunity to actively participate in the creation, customization and personalization of their own stuffed animal and provide an environment in which our guests can become both physically and emotionally engaged in an entertaining retail experience that is fun and exciting. This experience, which can last from ten minutes to over an hour, and we believe averages approximately 45 minutes, allows our guests to individualize their chosen animals by:

- selecting the amount of stuffing;
- making a special wish on the distinctive, three-dimensional, fabric heart before placing it inside the animal;
- selecting a pre-recorded message or creating a personalized voice message for the animal;
- dressing the animal in selected clothing and accessories; and
- creating the animal’s birth certificate.

When finished, our guests carry their purchases from our stores in our signature packaging, including our “Cub Condo” carrying case, “Beararmoire” clothing carrier, “CubCase” suitcase or “Bear Bunk Trunk,” which also are intended to raise awareness and recognition of our brand.

We have a broad and loyal guest base.

We believe our distinctive retail entertainment shopping experience has made Build-A-Bear Workshop a destination retailer with a broad and loyal guest base that enjoys our concept and therefore returns to make additional purchases. Our major guest segments include:

- families with children, primarily age three to twelve;
- their grandparents, aunts and uncles;
- teen girls who occasionally bring along their boyfriends; and
- child-centric organizations, such as scouting organizations and schools, looking for interactive entertainment options.

We believe our success in creating an exciting and memorable shopping experience is reflected by our guest satisfaction scores. During the first half of fiscal 2004, 90% of guests who completed our guest satisfaction survey gave their overall experience the highest or the second highest rating, with 74% giving the highest rating of “Beary Best.” Approximately 80% of returning guests who responded to our surveys in 2003 indicated that they pre-planned their visit to our stores. We believe the loyalty of our guests is further demonstrated by the number of return visit purchases. Over 43% of all stuffed animals registered in our database in fiscal year 2003 were associated with a household that had previously purchased a stuffed animal from our store. In addition, in fiscal 2003, over 30% of our transactions did not include a stuffed animal purchase but rather purchases of clothing and other items which we believe were for previously purchased animals.

Our active store environment also makes our stores an attractive location for birthday and other parties which we believe introduce new guests to our stores. In 2003, Build-A-Bear Workshop hosted approximately one million children at over 90,000 pre-scheduled parties, further expanding awareness of the Build-A-Bear Workshop brand as a family-oriented entertainment destination concept.

We have strong merchandising expertise.

Through our in-house design and product development team, we have developed a coordinated, creative and broad merchandise assortment, the vast majority of which is designed by us. Our exclusive products, which include a variety of animals, clothing, shoes and accessories, are branded with the Build-A-Bear Workshop mark. Our merchandising strategy emphasizes inventory flexibility, well-edited, high-quality product selections, operating efficiencies and the avoidance of merchandise markdowns and promotions in order to maximize gross margins. Through guest feedback and monitoring the fashion and entertainment markets, we are able to offer current fashions that drive clothing and accessory sales as well as respond to other market influences that generate product line and animal additions, including our exclusive line of shoes for stuffed animals licensed from and designed by SKECHERS® or stuffed animal outfits licensed from Limited Too® or professional sports leagues. Our experienced product development team regularly evaluates new and innovative fashion styles and trends and introduces new items and retires existing items in order to maintain an exciting merchandise assortment for our guests. We also consult regularly with our Cub Advisory Board, made up of children from 8 to 18 years of age, which gives us valuable input and feedback on our merchandise.

We typically carry approximately 450 individual products, each represented by a stock-keeping unit, or "SKU," in our stores, as we intend for each item to be highly productive. Our product line includes approximately 30 to 35 varieties of animals to be stuffed as well as a wide variety of other items which are displayed creatively throughout the store. We believe this merchandising strategy, along with the Build-A-Bear Workshop experience, has created a strong value proposition for our guests that allows us to emphasize the product and the experience rather than the price, avoiding the need to discount our products to drive sales.

We provide a high level of guest service through consistent execution.

Because our strategy since inception has been to provide a dynamic, interactive retail-entertainment experience for our guests, we have devoted significant resources and attention to guest service. In fiscal 2003, we hired less than 2.5% of applicants for store manager positions. We carefully select and train our store employees to promote a friendly and personable store environment and to provide a high level of guest service. Our above average employee retention rates, based on 2003 industry data, contribute to the consistency and quality of the guest experience. We give store managers approximately 100 hours of training at our "Bear University" before they begin work in their stores as well as ongoing training on topics such as our corporate values, sales skill development and leadership. Our Bear Builder associates complete a twenty hour in-store training course including specific training on leading parties. We receive ongoing feedback from our guests through in-store contact, emails and surveys regarding our products, experience and guest service. Research we conducted in 2003 indicated that 80% of guests who have visited more than one store rate their experience between stores as "very similar," indicating a high degree of consistency in store execution. The same research indicated that such guests, when asked what can be done to improve their overall experience, indicated 76% of the time that "nothing" could be done to improve their store experience. We provide additional value to our guests through many events that we plan around holidays, birthdays and other Build-A-Bear Workshop product launches.

We have an attractive store economic model.

We believe that we have developed an appealing retail store model that is profitable and operates successfully in a variety of geographies, malls and non-mall locations. We have a site selection process that utilizes a number of criteria, including economic and demographic variables and our internal sales forecasting tools. Substantially all of our new stores have generated strong guest traffic and have been profitable in the first twelve months of operation.

Our stores open for the entire period averaged $502 in net retail sales per gross square foot and $1.6 million in net retail sales per store in fiscal 2003, and $287 in net retail sales per gross square foot and $879 thousand in net retail sales per store in the first half of fiscal 2004. This compares favorably with the $345 in average sales per square foot for non-anchor mall tenants for 2003, as reported by the International Council of Shopping Centers. Our store contribution as a percentage of net retail sales, excluding revenue from our webstore and seasonal and event-based locations, was 22.8% in fiscal 2003 and 26.4% in the first half of fiscal 2004, and our total net income as a percentage of total revenues was 3.7% in fiscal 2003 and 7.5% in the first half of fiscal 2004. For a reconciliation of store contribution to net income, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures.”

We have reduced the average investment for our new stores in all major categories by working with our equipment and fixture suppliers to gain cost improvements while maintaining our quality standards, to gain efficiencies of scale as our order quantities have grown, and by working with our contractors to streamline the construction process in building our stores. For stores opened in fiscal 2003, our investment per store, which includes the cost of leasehold improvements (net of tenant allowances), fixtures and equipment, inventory (net of trade payables), and pre-opening expenses, averaged $485 thousand, a decrease of 19% from the average investment for stores opened in fiscal 2002. In addition, we currently target a smaller sized store than we have opened in the past. Currently, our new store target size is 2,800 square feet, compared to an average store size of approximately 3,100 square feet for our existing mall-based stores as of July 3, 2004. We believe we can achieve similar sales results, operate as efficiently, and serve our guests as effectively in this smaller store while improving our overall profitability.

We have a highly experienced and disciplined management team.

Our senior management team has extensive experience in a variety of retail sectors and in corporate management, averaging 25 years of relevant experience. Our management team is led by our Chief Executive Bear, Maxine Clark, who founded our company and has over 32 years of experience in the retail industry. As we have continued to build our company, we have added key leaders in selected areas of our business, including the recent addition of Barry Erdos as our President and Chief Operating Officer Bear, who brings over thirty years of experience with some of the leading retailers in the United States. We believe we have attracted a highly talented and experienced team to continue to grow the Build-A-Bear Workshop brand and our company.

We believe we employ a deliberative and disciplined management process that is brand driven and balances careful measurement and analysis of our business with experienced merchandising and guest insight. Despite our rapid growth, we work to maintain a small-company feel that encourages collaboration, creative thinking and interaction at all levels. Our core values include teamwork, striving for breakthrough results, including in our financial performance, open communication, and a commitment to learning. We strive to be a socially responsible citizen in the communities in which we operate. For example, we hold charitable events such as our annual “Stuffed with Hugs” day through which over 100,000 stuffed animals have been donated to charitable organizations. Similarly, we support local children’s cancer organizations, local animal shelters and children’s literacy programs by giving a portion of the proceeds from the sale of selected stuffed animals to these causes.

Growth Strategy

Our growth strategy is to develop and expand the reach of the Build-A-Bear Workshop brand. We expect our brand to grow in awareness and recognition as we continue to add additional locations domestically and internationally and pursue our expanded marketing efforts. We believe that the strength of our brand will allow us to continue to attract guests, as well as to develop key strategic relationships. The key elements of our strategy are:

Continue to expand our store base in the United States and Canada.

We have increased our store locations throughout the United States and Canada from 14 at the end of fiscal 1999 to 157 as of July 3, 2004. We plan to open a total of 21 Build-A-Bear Workshop stores in the United States and Canada in fiscal 2004, all of which have executed leases and eight of which had been opened as of July 3, 2004. In addition, we expect to open approximately 25 to 30 new stores in fiscal 2005 in new and existing markets in the United States and Canada, most of which have already been identified. We believe there is a market potential for approximately 350 Build-A-Bear Workshop stores in the United States and Canada.

Continue to expand our retail concept outside the United States and Canada.

We believe that there is continued opportunity to grow our Build-A-Bear Workshop concept and brand outside of the United States and Canada. Our franchisees have retail or real estate experience and have opened five Build-A-Bear Workshop stores in several foreign countries under master franchise agreements on a country-by-country basis. We have agreements with franchisees in the United Kingdom, Japan, South Korea, Denmark, Australia and France. In fiscal 2003, our first franchised store opened in the United Kingdom. By the end of fiscal 2004 we expect our franchisees to open a total of eight to twelve stores under these agreements, four of which had been opened as of July 3, 2004. We expect our franchisees to open between 15 and 20 new stores in fiscal 2005 under existing and anticipated franchise agreements. We believe there is a market potential for approximately 350 franchised stores outside the United States and Canada.

Continue to expand non-mall locations.

Based on our experience with non-mall based stores in tourist locations at the Downtown Disney® District at the Disneyland® Resort in Anaheim, California, Navy Pier in Chicago, Illinois and Broadway at the Beach in Myrtle Beach, South Carolina, we believe we have growth opportunities in additional non-mall locations such as other tourist venues and sports stadiums. These locations provide us with high-traffic venues with captive audiences that are generally comprised of a somewhat different demographic than typically visits the malls in which we operate. We believe our presence in these alternative venues enhances our brand awareness and introduces new guests to our concept, which can lead to increased customer traffic for our mall-based stores. On April 3, 2004, we opened an approximately 380 square foot, in-park store location at Citizens Bank Park, home of the Philadelphia Phillies baseball club, where guests can "Make Your Own Phanatic™" or make the Build-A-Bear Workshop mascot Bearemy. This store has significantly exceeded our original sales plan. We are in discussions with other professional sports teams about opening similar locations. While growth opportunities in sport stadiums and tourist locations may be limited, we believe the experience we are gaining from these alternative retail arrangements can be expanded into other non-mall locations, such as theme parks, cruise ships and other tourist locations.

Seek to expand into new lines of experiential retail.

We believe that consumer demand for additional experiential retail concepts is relatively untapped and that our expertise in product development and providing a consistent shopping experience can be applied to other experiential retail brands and concepts. We expect to be able to leverage our extensive guest database to market these new brands and concepts.

In fiscal 2003, we began testing in certain markets our initial brand expansion initiative, our proprietary "Friends 2B Made" line of make-your-own dolls and related products. We believe these stuffable, poseable, huggable dolls, which are approximately fifteen inches tall with an emphasis on fashion, hair and make-up, bring to dolls what Build-A-Bear Workshop has brought to teddy bears — an opportunity to participate in the creation and customization of the doll. Currently, these dolls are offered from a separate display fixture in selected, existing Build-A-Bear Workshop stores. This fall we plan to open two freestanding Friends 2B Made stores adjacent to our Build-A-Bear Workshop stores in Easton Town Center in Columbus, Ohio and in Robinson Town Center in Pittsburgh, Pennsylvania. After a reasonable test period, we will evaluate further expansion and alternative distribution channels.

Pursue other non-retail opportunities.

We have entered into a series of licensing arrangements with leading manufacturers, such as American Greetings, Creative Imaginations, Elan-Polo, HarperCollins, Hasbro and Springs, to develop a collection of lifestyle Build-A-Bear Workshop branded products including greeting cards, scrapbook supplies, shoes, books, toys and bedding, fabric and bath accessories. We believe those products have the potential to integrate the Build-A-Bear Workshop brand into our guests' lifestyles and other play activities enhancing our brand image and keeping our brand awareness top-of-mind with our guest. Since August

2004, a line of Build-A-Bear Workshop mini-plush toy kits and accessories from Hasbro has been featured exclusively in Target stores. In addition, in Fall 2004, we anticipate a line of scrapbooking papers and accessories from Creative Imaginations will be distributed to premier scrapbooking stores and a line of activity books by HarperCollins will be distributed to select bookstores, including Amazon.com®. We believe that these licensing initiatives have the potential to expand the reach of our brand, raise brand awareness, reach shoppers in non-mall locations and increase our revenues. We select licensees that we believe are leaders in their respective sectors and that understand and share our strategic vision for offering guests exciting and interactive merchandise. We have policies and practices in place intended to ensure that the products manufactured under the Build-A-Bear Workshop mark adhere to our quality, value and usability standards.

Industry and Guest Demographics

While Build-A-Bear Workshop offers consumers an interactive and personalized experience, our tangible product is stuffed animals, including our flagship product, the teddy bear, a widely adored stuffed animal for over 100 years. According to data published by the International Council of Toy Industries, worldwide sales of retail plush and doll toys were over $11 billion in 2000, about 20% of the $55 billion worldwide toy industry (excluding video games) and, according to a study conducted for the Toy Industry Association, U.S. sales of retail plush and doll toys in 2003 were over $4 billion. In 2003, Playthings Magazine ranked us as the 20th largest toy retailer in the United States for 2002 based on sales.

Our guests are very diverse, spanning broad age ranges and socio-economic categories. Major guest segments include families with children, primarily ages 3 to 12, grandparents, aunts and uncles, teen girls who occasionally bring along their boyfriends and child-centric organizations looking for interactive entertainment options such as scouting organizations and schools. Based on information compiled from our guest database for 2003, the average age of the recipient of our stuffed animals at the time of purchase is eleven years old and children aged one to fourteen are the recipients of approximately 80% of our stuffed animals.

According to the United States Census Bureau, in 2002 there were over 60 million children age 14 and under in the United States. While the size of this population group is projected to remain relatively stable over the next decade, the economic influence of this age group is expected to increase. Based on a recent third-party publication, we believe that children’s spending has doubled every ten years for the past three decades, tripling in the 1990s. Direct spending by children aged four to twelve was estimated at $2.2 billion in 1968, $4.2 billion in 1984 and $17.1 billion in 1994 and 2002 estimates placed spending by this demographic at $40 billion. By 2006, children are expected to directly spend more than $50 billion as well as influence hundreds of billions of dollars in additional family spending.

The Build-A-Bear Workshop Experience

We believe our guests, from toddlers to grandparents, associate a visit to Build-A-Bear Workshop with a hands-on, entertaining experience, a focus on quality merchandise and a fun store environment. Our stores are designed to be open and inviting with an entryway that spans that majority of our storefront with wide aisles to accommodate families and groups. Our highly visual and colorful stores feature a teddy bear theme, displays of numerous, fully-dressed stuffed animals and custom-designed fixtures that are intended to energize our guests and add to the overall shopping atmosphere. Special “bear” phrases are used selectively in our store design, such as “Beauty is in the eye of the bearholder,” “I never met a teddy I didn’t like” and “It doesn’t hurt to let your stuffing show,” in order to convey the values and culture of the Build-A-Bear Workshop brand.

Guests who visit Build-A-Bear Workshop enter a teddy-bear-themed environment consisting of eight stuffed animal-making stations. Cheerful proprietary teddy bear music plays, and the sign system is easy to read to distinguish each station and direct the guests through the animal-making process. At each station a friendly and knowledgeable Bear Builder associate is available to explain the process.

The animal-making process is comprised of the following eight stations:

- *Choose Me:* Upon entering our stores, guests are greeted by our First Impressions Bear who introduces our concept and our collection of furry stuffed animals. Depending on the season, we typically offer between 30 and 35 varieties of animals, including teddy bears, bunnies, dogs, kitties, a frog, a monkey, or a pony as well as a selection of limited edition Collectibear products. Fully stuffed versions of the animals are displayed along a wall so guests can see and touch each animal before selecting an unstuffed animal, or skin, of their own.

- *Hear Me:* Guests may select from 16 sound choices to insert inside the animal, including our "Build-A-Sound" option which allows a Guest to record their own ten-second message to further personalize their animal. Pre-recorded sounds can also be selected, including giggles, barks, meows, and other animal sounds as well as songs or messages such as "I love you."

- *Stuff Me:* With the assistance of a Bear Builder associate, the Guest pumps stuffing into the animal until it reaches the appropriate firmness and passes the Guest's own "huggability" test. After the Guest pumps the pedal of the stuffing machine, they participate in our signature "heart ceremony" in which they make a special wish before placing the distinctive, three-dimensional, fabric heart inside the animal.

- *Stitch Me:* The Bear Builder associate sews up the back of the animal through an exclusively licensed, pre-laced system. Before closing the animal, the Bear Builder associate inserts a unique barcode into the animal. Our "Find-A-Bear" identification system allows us to reunite a missing stuffed animal with its registered owner if it is ever lost and returned to us at one of our stores.

- *Fluff Me:* Guests air wash and fluff the stuffed animal with air blowers and brushes at our "bear bath." This step ensures the new animal is well-groomed and "paw-fectly huggable."

- *Dress Me:* We carry a variety of clothing items, outfits, and accessories so our guests can customize their stuffed animals. Clothing items include t-shirts with slogans such as "Hug Freely" to wear with jeans, "Hibernities," our exclusive sleepwear for stuffed animals, multi-piece outfits and authentic sports uniforms. Our stores associates, also known as Pawsonal Shoppers, are trained in bear fashion coordination and are on hand to help select the "pawfect" accessories such as "Bearyjane" shoes, glasses, or hats. The popularity of our Dress Me station is evidenced by the large number of transactions made by guests returning to purchase outfits and other items for what we believe to be a previously purchased animal; this category comprised over 30% of all transactions in fiscal 2003.

- *Name Me:* Guests proceed to a computer terminal where they sit and are guided through a child-friendly program that allows them to name their animal and also register their personal information in our Find-A-Bear identification system. The animal's name will appear on its own personalized birth certificate or storybook. Since the majority of our registrants are children 12 years of age and under, we are extremely sensitive to privacy issues and have a strict policy that governs our database use and maintenance and do not share personally identifiable data with any third parties for marketing purposes.

- *Take Me Home:* As the new stuffed animal friend is packaged for its trip home, along with its birth certificate or story, in its very own collectible "Cub Condo," guests can recite the "Bear Promise" to complete the experience. Clothing and accessories go home in our "Beararmoire" or "Bear Bunk Trunk." Each animal receives a "Lifetime Paw Pass" so they can return and visit our stores to be restitched, restuffed or refluffed whenever their owner wishes.

The duration of a guest's experience can vary greatly depending on his or her desires. While most guests choose to participate in the assembly process described above, which we believe takes an average of 45 minutes to complete, guests can also visit a Build-A-Bear Workshop store and purchase items such as clothing, accessories, our "Bear Bucks" gift certificates or pre-made animals in only a few minutes.

Merchandising and Product Development

Through our in-house design and product development team, we have developed a coordinated, creative and broad merchandise assortment, including a variety of animals, clothing, shoes and accessories. We believe our merchandise is an integral part of our concept and that the proprietary design of many of the products we offer is a critical element of our success while the authentic and fashionable nature of our products greatly enhances our brand's appeal to our guests. Our product development team regularly monitors current fashion and culture trends in order to create products that we believe are most appealing to our guests, often reflecting similar styling to the clothes our guests wear themselves. We test our products on an on-going basis to ensure guest demand supports order quantities. We also consult regularly with our Cub Advisory Board, which is made up of children from 8 to 18 years of age, which gives us valuable input and feedback on our merchandise. Through our focused vendor relationships, we are able to source our merchandise in a manner that is cost-effective, maximizes our speed to market and facilitates rapid reorder of our best-selling items.

There are typically fewer than 450 SKUs in our store at any one time so we intend for each item to be highly productive. Our product line typically includes approximately 30 to 35 varieties of animals to be stuffed, as well as a wide variety of other items, such as athletic uniforms, seasonal costumes and our exclusive Hibernities sleepwear collection, fun accessories, such as glasses, hats, Paw Wear, and sports equipment as well as other "Bear Stuff" accessories including backpacks, Comfy Stuff Fur-niture and camping equipment. We enhance the authentic nature of a number of our products with strategic product licensing relationships with brands that are in demand with our guests such as officially sanctioned NBA and MLB™ team apparel, SKECHERS® shoes, Limited Too clothing or official Royal Canadian Mounted Police uniforms. Our clothing is inspired by human fashion and includes authentic details such as functional buttons, working pockets, belt loops, and zippers and are customized for our animals with child-friendly, easy-to-dress details such as an opening for the stuffed animal's tail and adjustable closures to help fit any size animal.

Our clothing includes:

- complete athletic uniforms, including NBA, NHL and MLB™ branded items
- casual sportswear, including branded items from Limited Too
- costumes (including various new items for holidays)
- dress up (bride, tuxedo, prom)
- Hibernities (sleepwear)
- outerwear
- T-shirts (including collegiate Tiny Tees)
- UndiBears (underwear)

Our accessories include:

- glasses and sunglasses
- "pet" accessories for stuffed dogs
- cell phones
- hats, handbags, backpacks and totes
- Paw Wear (shoes and sandals)
- slippers
- SKECHERS® shoes (under exclusive license)
- socks

Our other products include:

- camping equipment
- sports equipment (including skateboards and snowboards)
- Bear Care products
- sounds
- Comfy Stuff Fur-niture

We display examples of stuffed animals in various outfits throughout the store to give guests ideas on how to personalize their own animal. Each animal has a Seal of Pawthenticity indicating that the stuffed animal being purchased is designed to meet our strict quality control standards. We also introduce and retire animals to keep our selection current and periodically introduce limited edition Collectibears which appeal to children as well as more serious collectors. Other collector series include "Bearemy's Kennel Pals" in which a portion of the proceeds from the sale of each animal are paid to local animal shelters and stray pet rescue organizations across the country. Future animals to be introduced in 2004 include Sesame Workshop's Elmo by Sesame Street® and Rudolph the Red-Nosed Reindeer® by Creative Media.

The skins for our animals are produced from high quality acrylic materials, and the stuffing is made of a high-grade polyester fiber. We believe all of our products meet Consumer Product Safety Commission requirements for toys and American Society for Testing and Materials specifications for toy safety in all material respects. We periodically have samples of all items sold in our stores tested at independent laboratories for compliance with these requirements. Packaging and labels are developed for each product to communicate age grading and any special warnings which may be recommended by the Consumer Product Safety Commission.

Our products are offered at prices intended to attract guests across a broad cross-section of income levels, with stuffed animals ranging from $10 for a cuddly 14-inch Lil Cub to $25 for a 16-inch Beary Limited Edition Leopard and other limited edition Collectibears. Outfits range in price from $8 to $15, accessories range from $1.50 to $12, and Paw Wear shoes range from $3 to $8. Our average transaction in fiscal 2003 was approximately $31. Given the high value proposition we believe we offer our guests, we historically have not had seasonal or advertised sales events or markdowns, but we selectively use coupons and frequent shopper discounts for our most loyal guests, as well as gift-with-purchase promotions.

In fiscal 2003, we began testing in certain markets our initial brand expansion initiative, our proprietary "Friends 2B Made" line of make-your-own dolls and related products. We believe these stuffable, poseable, huggable dolls, which are approximately fifteen inches tall with an emphasis on fashion, hair and make-up, bring to dolls what Build-A-Bear Workshop has brought to teddy bears — an opportunity for the child to participate in the creation and customization of the doll. Currently 12 varieties of these dolls are offered from a separate display fixture in selected, existing Build-A-Bear Workshops, along with approximately 25 clothing and accessory options. This Fall we plan to open two freestanding Friends 2B Made stores adjacent to Build-A-Bear Workshop stores in Easton Town Center in Columbus, Ohio and in Robinson Town Center in Pittsburgh, Pennsylvania. We will determine the future plans for this brand after we receive comprehensive results from the test stores.

Marketing

We believe that the strength of the Build-A-Bear Workshop brand is a competitive advantage and an integral part of our strategy. Our goal is to continue to build the awareness of our brand and the recognition of our name as a destination retailer that provides experience-based shopping across a broad range of age groups and demographics.

Historically, our marketing program relied heavily on our retail store locations, word-of-mouth referrals, public relations, and direct mail campaigns to our proprietary guest database in order to build our brand and attract new guests. After conducting market research in 2003, we concluded we had a significant opportunity to raise awareness of our brand and began developing a more integrated marketing plan that included national television advertising and online components. Starting in November 2003, we tested our new marketing program in selected, representative markets. Based on the results of the test, in February 2004 we rolled the program out on a national basis and realized an increase in every month of the first half of fiscal 2004 since the rollout, resulting in an increase of 13.8% in our comparable store sales for the period. Our advertising expenditures were $3.5 million (3.3% of total revenues) in fiscal 2001, $6.0 million (3.5% of total revenues) in fiscal 2002, $10.9 million (5.1% of total revenues) in fiscal 2003 and $7.9 million (5.8% of total revenues) for the first half of fiscal 2004.

We employ several different marketing programs to drive traffic to our stores and grow awareness of our brand. Because we have a relatively balanced quarterly business, we can benefit from advertising campaigns that run in all four quarters of the year.

Television and Online Advertising. We feel that the interactive product and experience that we offer is most effectively communicated in media such as television that offers high visual and sensory impact, particularly for new potential guests. When we rolled out our television advertising on a national basis, we focused on a mix of children’s cable programming that has high co-viewing levels for adults, particularly mothers. Online advertising supports the television messaging and is featured on popular, family-oriented websites. We believe that television and online advertising will continue to be critical in our marketing mix, particularly in our current brand building stage as we take steps to raise consumer awareness of our products and services.

Direct Mail and Email. We have over nine million unique household addresses in our database and we have developed a targeted direct mail program using purchasing history data for each household. We mail more than 14 million catalogs annually to our best guests, typically mailing seasonal multi-page catalogs for Valentine’s Day, Spring, Summer, back-to-school and Holiday. These color catalogs are typically 12 to 16 pages in length and are intended to drive traffic to our stores by featuring new merchandise offerings and announcing special events that are timely to that season. Store displays support our direct mail materials and allow us to capitalize on mall traffic while helping guests find the featured merchandise. Specialty targeted mailings include sending a birthday card to selected guests that includes a $5 gift certificate. Also integrated into our marketing plan is an email program which is designed to bring guests to our stores for special events, new animal launches, new product offerings, and new store openings. Generally, the messaging is targeted to specific age groups or interest groups while reaching over two million guests per mailing. In addition to greetings on their own birthdays, select guests receive a greeting via email on the anniversary of the creation of each stuffed animal friend inviting them to visit the store and get a birthday gift for their furry friend.

Parties. In 2003 we hosted over 90,000 parties in our stores with approximately one million children attending. We believe these parties typically introduce at least two of every ten party guests to our concept for the first time. Each child receives an age appropriate “goody bag” that includes a return visit coupon as well as a rotating offering of gifts and sampling opportunities from companies with which we have established marketing relationships such as Nestlé. Parties can be scheduled in our stores, online or through our guest service center and are promoted via in-store events, local parent and family publications and direct mail to the parents of a birthday child. Nearly a half million party mailers were sent last year. Each store may also do local party promotion to schools, scout troops, day care centers and other child-centric organizations in their area.

Store Events. We have developed special in-store and in-mall events to enhance the entertainment and memorable nature of our store visits. The majority of our in-store events are created to tie into holidays and new product launches. The events generally take place over a three-day weekend and are promoted via in-store signage, guest invitations, the website and email solicitations. Many of our returning guests have come to anticipate these events, planning them into their family weekend activities.

Our in-store and in-mall event calendar has scheduled an average of two events per store, per month, including events such as “Furry Fashion Shows,” “Bearemy’s Birthday Bash,” “Love Stuff Headquarters” for Valentine’s Day, and the “Kooky Spooky Bear Bash” at Halloween. Our life-sized mascots, Bearemy and Pawlette Coufur are typically present at these events to entertain our guests and promote our brand. We believe these events create a sense of community for our guests, help increase repeat visits, and appeal to collectors of our products.

In 2004, we launched our party season in all of our stores with our Ultimate Build-A-Party store event and promotion which was tied to Leap Day. Special gifts were sent to Leap Day birthday celebrants around the United States and Canada. Each guest with a February 29th birthday was offered a free bear and 40% of these promotional offers were redeemed in our stores. In addition, all qualifying guests visiting our stores that weekend were given a t-shirt gift with their purchase. In two days, we gave away nearly 60,000 free t-shirts for children and adults. This promotion extended to our web site as well by encouraging guests to vote on the components of the “ultimate party.” This was our first national sweepstakes and was entered by over 45,000 guests. We expect to leverage our national store presence with large scale events similar to the Ultimate Build-A-Party on a regular basis.

Website. Our website, *www.buildabear.com*, has averaged over 620,000 unique visitors per week in the first half of fiscal 2004, an increase of 160% over the same period in fiscal 2003. In addition to shopping, guests can find store locations, learn about new products, view the store event calendar, play games and send e-cards on our website. Guests can also use our online party scheduler to schedule parties on a real-time basis. For fiscal 2003, approximately 39% of our parties were booked using our online party scheduler. Our website is managed by an internal staff that keeps it current on a daily basis, maintains brand and content consistency and minimizes costs and speed of execution. We have implemented programs and policies designed to comply with the standards under the Federal Children’s Online Privacy Protection Act.

Public Relations. Public relations is an important aspect of our marketing and is closely tied to our charitable programs like “Nikki’s Bear”, our global “Stuffed With Hugs Day” and this year’s “Huggable Heroes” writing contest. We have also been featured in national and local business publications and other media. Maxine Clark, our Chief Executive Bear, has appeared in segments of the Today Show, CBS Morning Show, and other local and national broadcasts telling the Build-A-Bear Workshop story. In the twelve months ended July 31, 2004, we had over 117 million audience impressions as a result of unpaid publicity in the United States and Canada, based on quantitative results provided by media tracking companies. In 2002, to celebrate the 100th year of the teddy bear, we were invited to participate in the Macy’s Thanksgiving Day Parade® and we have sponsored floats in the parade for the past two years.

Tourism Marketing. We also have high volume store locations in selected popular tourist markets such as the Downtown Disney® District at the Disneyland® Resort in Anaheim, California, Broadway at the Beach in Myrtle Beach, South Carolina, Chicago’s Navy Pier and Las Vegas, Nevada. Although limited, we believe there are additional location opportunities for large tourist stores in the United States and Canada. We utilize billboards, local tourist media and radio to increase visitor traffic and, by tracking registrations in our Find-A-Bear identification database, we believe we introduce our concept to many first-time guests through our tourist locations who then visit their local Build-A-Bear stores when they return home.

Mobile Marketing. In fiscal 2004, we created an 800 square foot temporary store that can provide the full Build-A-Bear Workshop experience, while offering a more limited line of products, which we have used selectively to promote our brand at events such as the 2004 NBA All-Star Jam Session and MLB™ All-Star FanFest events. Our main objective with our mobile store operations is to introduce more people to our brand in order to bring more traffic to our traditional mall-based locations. Our initial results for these events met our expectations and we plan to construct a mobile store in order to allow us to attend additional venues in fiscal 2005.

Licensing and Strategic Relationships

We have developed licensing and strategic relationships with some of the leading retail and cultural organizations in the United States and Canada. We believe that our guest base and our position in our industry category makes us an attractive partner and our customer research and insight allows us to focus on strategic relationships with other companies that we believe are appealing to our guests. We plan to continue to add strategic relationships on a selective basis with companies who share our vision for our brand and provide us with attractive brand-awareness, marketing and merchandising opportunities. These relationships for specific products are generally reflected in contractual arrangements for limited terms that are terminable by either party upon specified notice.

Product and Merchandise Licensing. We have key strategic relationships with select companies, including World Wildlife Fund®, SKECHERS®, the NBA, the WNBA®, MLB™, Limited Too, Disney and First Book® and, in Canada, the NHL®, Royal Canadian Mounted Police and World Wildlife Fund Canada in which we use their brands on our products sold in our stores. These strategic relationships allow both parties to generate awareness around their brands. We have relationships with groups that pursue socially responsible causes, as well as companies that have strong consumer brands, in order to respond to our guests' interests. For example, in connection with our relationship with World Wildlife Fund, we have introduced the Giant Panda, the Beary Limited Edition Lion, Tiger, Leopard and soon, the Polar Bear. One dollar from the sale of each of these animals is paid to World Wildlife Fund. We also have an exclusive agreement with footwear retailer SKECHERS® to sell their branded shoes for our stuffed animals. Through our licensing arrangements with Limited Too, guests can purchase outfits for their animals identical to their own outfits from Limited Too. We also license a variety of college and university logos that we sell on t-shirts for our stuffed animals.

Promotional Arrangements. We have also developed promotional arrangements with selected organizations. Our arrangements with the New York Mets, the Chicago Cubs, and the St. Louis Cardinals feature stuffed animal giveaways at each club's ballpark on a day in which our brand is highly promoted within the stadium. Player appearances by these clubs as well as the New York Liberty WNBA team draw large crowds to select store locations. We also have arrangements featuring product sampling, cross promotions and shared media with companies such as Baskin-Robbins, Macy's, Nestlé, Proctor & Gamble, and The Picture People, as well as targeted promotions with key media brands like *Nickelodeon Magazine,* Radio Disney and ABC Family.

Third Party Licensing. We have entered into a series of licensing arrangements with leading manufacturers to develop a collection of lifestyle Build-A-Bear Workshop branded products including greeting cards, scrapbook supplies, shoes, books, toys and bedding, fabric and bath accessories. We believe that each of these initiatives has the potential to enhance our brand, raise brand awareness, and drive increased revenues. We select companies for licensing relationships that we believe are leaders in their respective sectors and that understand and share our strategic vision for offering guests exciting and interactive merchandise. We have policies and practices in place intended to ensure that the products manufactured under the Build-A-Bear Workshop brand adhere to our quality, value and usability standards. We have entered into licensing arrangements for our branded products with leading manufacturers including American Greetings, Creative Imaginations, Elan-Polo, HarperCollins, Hasbro and Springs. Since August 2004, an exclusive line of Build-A-Bear Workshop mini-plush toy kits and accessories from Hasbro has been featured exclusively in Target stores. In addition, in Fall 2004, we anticipate a line of scrapbooking papers and accessories from Creative Imaginations will be distributed to premier scrapbooking stores and a line of activity books by HarperCollins will be distributed to select bookstores throughout the country.

Employees and Training

We are committed to providing a great experience for our diverse team of associates as well as our guests. We have a distinctive culture that we believe encourages contribution and collaboration. We take great pride in our culture and feel it is critical in encouraging creativity, communication, and strong store performance. All store managers receive comprehensive training through our Bear University program, which is designed to promote a friendly and personable environment in our stores and a consistent experience across our stores. In fiscal 2003, we hired less than 2.5% of applicants for store manager positions. We focus on employing and retaining people who are friendly and focused on guest service. Our above average employee retention rates, based on 2003 industry data, contribute to the consistency and quality of the guest experience. Our store teams are evaluated and compensated not only on sales results but also the results from our regular guest satisfaction surveys. Each store has a recognition fund so that exceptional guest service can be immediately recognized and rewarded. We are committed to providing compensation structures that recognize individual accomplishments as well as overall team success.

As of June 30, 2004, we employed approximately 660 full-time and 3,800 part-time employees. We divide our United States and Canadian store base into two geographic regions, which are supervised by our Chief Workshop Bear and two Regional Workshop Directors. Bearitory Leaders are responsible for each of our 19 bearitories consisting of between six and twelve stores. Each of our stores generally has a full-time Chief Workshop Manager and two full-time Assistant Workshop Managers in addition to hourly Bear Builder associates, most of whom work part-time. The number of part-time employees fluctuates depending on our seasonal needs. In addition to the approximately 4,260 employees at our store locations, we employ approximately 200 associates in general administrative functions at our World Bearquarters in St. Louis, Missouri. We are committed to innovation and invention and generally have confidentiality agreements with our employees and consultants. Store managers and Bearquarters associates pass specific profile assessments. None of our employees are represented by a labor union, and we believe our relationship with our employees is good.

Stores

As of July 3, 2004, we operated 157 retail stores located primarily in major malls throughout the United States and Canada. Our mall-based stores generally range in size from 2,000 to 4,000 square feet and average approximately 3,100 square feet while our tourist location stores currently range up to 6,000 square feet. Our stores are designed to be open and inviting for guests of all ages with an entryway that spans the majority of our storefront with wide aisles to accommodate families or groups. Our typical store has an oversized “sentry bear” at the front entry and features two stuffing machines, five Name-Me computer stations, display units and flooring to enhance the guest traffic flow through the store. We select malls and make site selections within the mall based upon demographic analysis, market research, site visits and mall dynamics as well as a forecasting model that projects a potential location’s first year sales. We have identified a significant number of target sites that meet our criteria for new stores in malls and tourist locations. We seek to locate our mall-based stores near major customer entrances to or in the center of malls and adjacent to other children, teen and family retailers. After we approve a site, it typically takes approximately 23 weeks to finalize the lease, design the layout, build out the site, hire and train associates, and stock the store for opening.

We lease all of our store locations. Due to our attraction as a family-oriented entertainment destination concept with average net sales per gross square foot that, in fiscal 2003, generally exceeded the average for the malls in which we operated, we have received numerous requests from mall owners and developers to locate a Build-A-Bear Workshop store in their malls. We believe that we generally have negotiated favorable exclusivity provisions in our leases.

Most of our leases have an initial term of ten years. A number of our leases provide a lease termination or “kick out” option to either party in a pre-determined year, typically the third or fourth year of the lease, if we do not meet certain agreed upon minimum sales levels. In addition, 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. Most of our leases also require the payment of a fixed minimum rent as well as percentage rent based on sales in excess of agreed upon minimum annual sales levels.

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Following is a list of our 157 stores in the United States and Canada by state and province as of July 3, 2004:

State	Number of Stores
Alabama	1
Arizona	3
Arkansas	1
California	13
Colorado	4
Connecticut	3
Delaware	1
Florida	7
Georgia	5
Illinois	6
Indiana	4
Iowa	1
Kansas	2
Kentucky	2
Louisiana	1
Maryland	4
Massachusetts	6
Michigan	3
Minnesota	1
Missouri	3
Nebraska	1
Nevada	3
New Hampshire	2
New Jersey	11
New York	10
North Carolina	5
Ohio	7
Oklahoma	2
Oregon	2
Pennsylvania	8
South Carolina	2
Tennessee	5
Texas	11
Utah	2
Virginia	6
Washington	3
Wisconsin	2
Province	
British Columbia	1
Alberta	2
Ontario	1

International Franchises

In 2003, we began to expand the Build-A-Bear Workshop brand outside of the United States, opening our own stores in Canada and our first franchised location in the United Kingdom. Currently we intend to only franchise locations outside the United States and Canada. As of July 3, 2004, there were five Build-A-Bear Workshop franchised stores located in the United Kingdom, Japan, South Korea and Denmark. All of our non-U.S. and Canadian stores are operated by third party franchisees under separate master franchise agreements covering each country. Master franchise rights are typically granted to a franchisee for an entire country for a specified term. The terms of these master franchise agreements vary by country but typically provide that we receive an initial, one-time franchise fee and continuing franchise fees based on a percentage of sales made by the franchisees' stores. The terms of these agreements range up to ten years with a franchise option to renew for an additional term if certain conditions are met. All such franchised stores have similar signage, store layout and merchandise characteristics to our stores in the United States and Canada. Our goal is to have well-capitalized franchisees with expertise in retail operations and real estate in their respective country. We approve all franchisees' orders for merchandise and have oversight of their operational and business practices in an effort to ensure they are in compliance with our standards. We intend to open additional franchised stores in the countries where we currently operate as well as several additional countries, including France and Australia.

Sourcing and Inventory Management

We do not own or operate any manufacturing facilities. Our animal skins, stuffing, clothing and accessories are produced by factories located primarily in China. We purchased approximately 80% of our inventory in fiscal 2001, approximately 74% in fiscal 2002 and approximately 76% in fiscal 2003 from two vendors. After specifying the details and requirements for our products, our vendors contract orders with multiple manufacturing companies in Asia that are approved by us based on our quality control and labor standards. Our suppliers can be used interchangeably as each has a sourcing network for multiple product categories and can expand its factory network as needed. We continue to diversify our vendor structure as we grow in size and as the number of product categories in our stores increases. Our relationships with our vendors generally are on a purchase order basis and do not provide a contractual obligation to provide adequate supply, quality or acceptable pricing on a long-term basis.

Since our inception, we have significantly increased our inventory and supply chain management efficiencies. The average time from the beginning of production to arrival of the products into our stores is approximately 90 to 120 days. Our weekly tracking and reporting tools give us the capabilities to promptly adjust to shifts in demand and help us to negotiate prices with our vendors. Through a regular analysis of selling trends, we periodically update our product assortment by increasing productive styles and eliminating less productive SKUs. Our distribution centers provide further logistical efficiencies for delivering merchandise to our stores.

Distribution and Logistics

A third-party provider warehouses and distributes a large portion of our merchandise at a 200,000 square foot distribution center in St. Louis, Missouri under an agreement that expires on March 31, 2005. We also have smaller third-party distribution centers in Toronto, Canada under a lease that expires on March 31, 2005 and Los Angeles, California under a lease that expires on February 24, 2005. All items in our assortment are eligible for distribution, depending on allocation and fulfillment requirements, and we typically distribute merchandise and supplies to each store once per week on a regular schedule which allows us to consolidate shipments in order to reduce distribution and shipping costs. Store shipments from our third-party distribution centers are scheduled throughout the week in order to smooth workflow and stores that are part of the same shipping route are grouped together to reduce freight costs.

Transportation from the warehouses to the stores is managed by several third-party logistics providers. Merchandise is ground-shipped to one of 55 third-party pool points which then deliver merchandise to the stores on a pre-arranged schedule. Back-up supplies, such as Cub Condo carrying cases and stuffing for the animals, are often stored in limited amounts at these local pool points.

Management Information Systems and Technology

Management information systems are a key component of our business strategy and we are committed to utilizing technology to enhance our competitive position. Our information and operational systems utilize a broad range of both purchased and internally developed applications which support our guest relationships, marketing, financial, retail operations, real estate, merchandising, and inventory management processes. The systems are accessed over a company-wide network providing our employees with access to our key business applications. Sales and daily deposit information is collected from the stores' point-of-sale terminals on a daily basis as well as guest information from our Name-Me system and is used to support key decisions in all areas including merchandising, allocation, and operations.

We have developed and maintain proprietary software including domestic and international versions of our Name Me kiosk, Find-A-Bear identification, and our party scheduling systems. We have also filed an application for patent protection in the U.S. and Canada for the party scheduling system. Over the next several years we are improving our operations by installing an integrated point-of-sale system and new e-commerce software for our website, enhancing our intranet and extranet and installing a new merchandise planning software application designed to improve our purchasing and inventory control processes. We regularly evaluate strategic information technology initiatives focused on competitive differentiation and support of corporate strategy as well as tactical initiatives focused on reinforcing our internal support systems, both of which help support our growth and develop our business. Over the next several years, we also plan to replace or modify certain other systems. Our critical systems are reviewed on a regular basis to evaluate disaster recovery plans and the security of our systems.

Competition

We view our Build-A-Bear Workshop experience as a distinctive combination of entertainment and retail. Because we are mall-based, we see our competition as those mall-based retailers that vie for prime mall locations, including various apparel, footwear and specialty retailers. We also compete with toy retailers, such as Wal-Mart, Toys “R” Us, Kmart and Target and other discount chains, as well as with a number of companies that sell teddy bears in the United States, including, but not limited to, Ty, Fisher Price, Mattel, Russ Berrie, Applause, Boyd’s, Hasbro, Commonwealth, Gund and Vermont Teddy Bear. Since we sell a product that integrates merchandise and experience, we also view our competition as any company that competes for our guests’ time and entertainment dollars, such as movie theaters, amusement parks and arcades, and other mall-based entertainment venues.

We are aware of several small companies that operate “create your own” teddy bear and stuffed animal stores or kiosks in retail locations, but we believe none offers the breadth and depth of the Build-A-Bear Workshop experience or operates as a national retail company.

We believe one of our competitive advantages is our ability to provide high-quality products to our guests in a fun, family-friendly, service-oriented environment and that we compete on the following bases:

- offering a highly satisfying overall shopping experience;
- store environment and ambiance;
- guest service;
- location;
- product presentation;
- product quality and selection, including licensed products from brands such as Limited Too, the NBA, the NHL®, MLB™, SKECHERS® and Disney; and
- price.

Many of our competitors have longer operating histories, significantly greater financial, marketing and other resources, and greater name recognition than we do. We cannot assure you that we will be able to compete successfully with them in the future, particularly in geographic locations that represent new markets for us.

Non-Store Properties

In addition to leasing all of our store locations, we lease approximately 23,500 square feet for our corporate headquarters, or World Bearquarters, in St. Louis, Missouri under a lease and a separate sublease. Our “World Bearquarters” houses our corporate staff, our call center and our on-site training facilities. The lease, which covers approximately 8,500 square feet, has approximately four years remaining, which we can extend for an additional five years. The sublease, which covers approximately 15,000 square feet, also has four years remaining, which we can extend for an additional five years. We have entered into a new lease to replace the lease and sublease which goes into effect on January 1, 2005. The new lease covers approximately 52,000 square feet at the same location as our current World Bearquarters and has a four-year term, which may be extended for two additional five-year terms. We also lease approximately 8,000 square feet in St. Louis, Missouri for our web fulfillment site. This lease has approximately one year remaining.

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Intellectual Property and Trademarks

As of July 3, 2004, we had obtained over 140 U.S. trademark registrations, including Build-A-Bear Workshop® for stuffed animals and accessories for the animals, retail store services and other goods and services, over 30 issued U.S. patents with expirations ranging from 2013 through 2018 and over 100 copyright registrations. In addition, we have over 100 U.S. trademark and eight U.S. patent applications pending. We also license three patents from third-parties, including a patent for the pre-stitching system used for closing up our stuffed animals after they have been stuffed (U.S. Patent No. 6,109,196). We hold an exclusive license for the use of the patent in retail stores similar to ours. The term of the license is for the full life of the patent, which will expire in 2019. All payments due under the license have been made and no ongoing payments are required.

We believe our copyrights, service marks, trademarks, trade secrets, patents and similar intellectual property are critical to our success, and we intend, directly or indirectly, to maintain and protect these marks and, where applicable, license the intellectual property and the registrations for the intellectual property. We rely on trademark, copyright and other intellectual property law to protect our proprietary rights to the extent available in any relevant jurisdiction. We also depend on trade secret protection through confidentiality and license agreements with our employees, subsidiaries, licensees, licensors and others. We may not have agreements containing adequate protective provisions in every case, and the contractual provisions that are in place may not provide us with adequate protection in all circumstances. Any infringement or misappropriation of our intellectual property rights or breach of our confidentiality or license agreements could result in significant litigation costs, and any failure to adequately protect our proprietary rights could result in our competitors offering similar products, potentially resulting in loss of one or more competitive advantages and decreased revenues. In addition, intellectual property litigation or claims could force us to do one or more of the following: cease selling or using any of our products that incorporate the challenged intellectual property, which would adversely affect our revenue; obtain a license from the holder of the intellectual property right alleged to have been infringed, which license may not be available on reasonable terms, if at all; and redesign or, in the case of trademark claims, rename our products to avoid infringing the intellectual property rights of third parties, which may not be possible and time-consuming if it is possible to do so.

Despite our efforts to protect our intellectual property rights, intellectual property laws afford us only limited protection. A third party could copy or otherwise obtain information from us without authorization. Accordingly, we may not be able to prevent misappropriation of our intellectual property or to deter others from developing similar products or services. Further, monitoring the unauthorized use of our intellectual property is difficult. Litigation has been and may continue to be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Litigation of this type could result in substantial costs and diversion of resources, may result in counterclaims or other claims against us and could significantly harm our results of operations. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States.

We also conduct business in foreign countries to the extent our merchandise is manufactured or sold outside the United States and have opened stores outside the United States in the past two years, either directly or indirectly through franchisees. We filed, obtained or plan to file for registration of marks in foreign countries to the degree necessary to protect these marks, although our efforts may not be successful and further there may be restrictions on the use of these marks in some jurisdictions.

Legal Proceedings

From time to time we are involved in ordinary routine litigation common to companies engaged in our line of business. We are involved in several court actions seeking to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. As of the date of this prospectus, we are not involved in any pending legal proceedings that we believe would be likely to have a material adverse effect on our financial condition or results of operations.

MANAGEMENT

Executive Officers, Directors and Key Employees

Set forth below is the name, age, position and a brief account of the business experience of each of our executive officers, directors and key employees as of July 3, 2004. All of our directors were elected pursuant to the terms of a stockholders' agreement. The stockholders' agreement will terminate upon the closing of the offering. See "Certain Relationships and Related Party Transactions — Agreements with Investors."

Name	Age	Position(s)
Maxine Clark	55	Chief Executive Bear and Chairman of the Board
Barry Erdos	60	President and Chief Operating Officer Bear
John Burtelow	56	Chief Banker Bear
Tina Klocke	44	Chief Financial Bear, Treasurer and Secretary
Teresa Kroll	50	Chief Marketing Bear
Scott Seay	42	Chief Workshop Bear
Barney Ebsworth	70	Director
James Gould	55	Director
William Reisler	48	Director
Frank Vest, Jr.	57	Director

Maxine Clark has been our Chief Executive Bear since our inception in 1997, our President from our inception in 1997 to April 2004 and has served as Chairman of our board of directors since our conversion to a corporation in April 2000. From November 1992 until January 1996, Ms. Clark was the President of Payless ShoeSource, Inc. Prior to joining Payless, Ms. Clark spent over 19 years in various divisions of The May Department Stores Company in areas including merchandise development, merchandise planning, merchandise research, marketing and product development. Ms. Clark is a member of the Board of Directors of The J.C. Penney Company, Inc. She also serves on the Board of Trustees of the International Council of Shopping Centers and Washington University in St. Louis and on the Board of Directors of BJC Healthcare. Ms. Clark is also a member of the Committee of 200, a leading organization for women entrepreneurs around the world.

Barry Erdos has been our President and Chief Operating Officer Bear since April 2004. Prior to joining us, Mr. Erdos was the Chief Operating Officer and a director of Ann Taylor Stores Corporation and Ann Taylor Inc., a women's apparel retailer, from November 2001 to April 2004. He was Executive Vice President, Chief Financial Officer and Treasurer of Ann Taylor Stores Corporation and Ann Taylor Inc. from 1999 to 2001. Prior to that, he was Chief Operating Officer of J. Crew Group, Inc., a specialty retailer of apparel, shoes and accessories, from 1998 to 1999.

John Burtelow has been our Chief Banker Bear since July 2001. Prior to joining us, Mr. Burtelow was the Chief Financial Officer, Executive Vice President and Chief Administrative Officer for Edison Brothers Stores, Inc. from January 1998 to September 1999. Edison Brothers Stores, Inc. filed a petition for reorganization under Chapter 11 of the Federal bankruptcy laws on November 3, 1995 and emerged from bankruptcy protection in September 1997. Edison Brothers refiled for bankruptcy on March 9, 1999 and immediately commenced a liquidation of all its assets. Mr. Burtelow also served as Executive Vice President-Chief Financial Officer for Ames Department Stores, Inc. from August 1994 to January 1998, for Venture Stores, Inc. from 1989 to 1994, and for several divisions of The May Department Stores Company from 1987 to 1989.

Tina Klocke has been our Chief Financial Bear, since November 1997, our Treasurer since April 2000, and Secretary since February 2004. Prior to joining us, she was the Controller for Clayton Corporation, a manufacturing company, where she supervised all accounting and finance functions as well as human resources. Prior to joining Clayton in 1990, she was the controller for Love Real Estate

Company, a diversified investment management and development firm. She began her career in 1982 with Ernst & Young LLP.

Teresa Kroll has been our Chief Marketing Bear since September 2001. Prior to joining us Ms. Kroll was Vice President–Advertising for The WIZ, a unit of Cablevision, from 1999 to 2001. From 1995 to 1999, Ms. Kroll was Director of Marketing for Montgomery Ward Holding Corp., a department store retailer. From 1980 to 1994 Ms. Kroll held various administrative and marketing positions for Venture Stores, Inc.

Scott Seay has been our Chief Workshop Bear since May 2002. Prior to joining us, Mr. Seay was Chief of Field Operations for Kinko's Inc., a national chain of copy centers, from April 1999 to May 2002. From April 1991 to April 1999, Mr. Seay held several operational roles including Senior Vice President of Operations West for CompUSA Inc., a computer retailer. From April 1983 to April 1991, Mr. Seay held several operational positions for The Home Depot, Inc.

Barney Ebsworth has served on our board of directors since our conversion to a corporation in April, 2000 and served on an advisory board to our predecessor entity prior to that time. Mr. Ebsworth is the founder, Chairman, President and CEO of Windsor, Inc., formed in 1979 for the purpose of providing financing for venture capital, real estate and other investments. Mr. Ebsworth was the founder, Chairman, President and CEO of INTRAV, a general agency formed in 1959 for the purpose of selling travel to individuals and businesses, until the company was sold in 1999. Mr. Ebsworth also founded Royal Cruise Line and Clipper Cruise Line in 1972 and 1981, respectively. He was the Chairman, President and CEO of those companies from inception to the time they were sold in 1986 and 1997, respectively. Mr. Ebsworth is also a Trustee of the St. Louis Art Museum and the Seattle Art Museum, a Commissioner of The American Art Museum and Smithsonian Institute and a member of the Trustees Council and Co-Chairman of Collectors Committee of the National Gallery of Art, Washington D.C.

James Gould has served on our board of directors since our conversion to a corporation in April 2000, and served on an advisory board to our predecessor entity prior to that time. Mr. Gould is a Managing General Partner of The Walnut Group, a group of affiliated venture capital funds, and has held that position since 1994. He is also the Managing Member of Gould Venture Group V, LLC, a diversified financial concern, and Managing Member and Principal Owner of Management One LLC, a firm he founded that represents professional athletes. Mr. Gould has served on numerous boards including Prevent Child Abuse America, Camp BrightLight in partnership with the YMCA and the Cincinnati Ballet Company.

William Reisler has served on our board of directors since our conversion to a corporation in April 2000, and served on an advisory board to our predecessor entity prior to that time. Mr. Reisler is a Co-Founder and has been a Managing Partner of Kansas City Equity Partners, a private equity firm, since 1993. His investment focus is primarily in consumer and retail sectors. His corporate experience includes development of new products for Hallmark Cards, Inc. He is a former Chairman of the National Association of Small Business Investment Companies, a venture capital trade association. He is currently a member of the Board of Directors of Organized Living, Inc. and Three Dog Bakery, Inc.

Frank Vest, Jr. has served on our board of directors since our conversion to a corporation in April 2000. Mr. Vest has been a Partner and Managing Director of Catterton Partners IV Management Company, L.L.C., Catterton Partners Management Company, L.L.C. and Catterton Partners Corporation since 1993; President of The Catterton Group, Inc. since 1984; and a Manager/ General Partner of Catterton Capital Management, L.L.C., Odyssey Limited Partnership and Anthony Woods, L.L.C. since 1990. Mr. Vest is also currently a member of the Board of Directors of Tabi International, Inc. (Canada).

Directors' Terms

Currently, we have authorized a seven member board of directors. The following individuals serve on the board pursuant to a stockholders' agreement that will terminate upon the completion of this offering:

- one director who has been selected by the Barney A. Ebsworth Revocable Trust dated July 23, 1986 so long as it owns at least 50% of its originally acquired preferred stock of the company and so long as it elects either Barney A. Ebsworth or his daughter, Christiane Ebsworth Ladd, currently Barney Ebsworth;
- one director who has been selected by Walnut Capital Partners, L.P. and Walnut Investment Partners, L.P. so long as they own at least 50% of their originally acquired preferred stock of the company, currently James Gould;
- one director who has been selected by KCEP Ventures II, L.P. so long as it owns at least 50% of its originally acquired preferred stock of the company, currently William Reisler;
- one director who has been selected by Catterton Partners IV, L.P., Catterton Partners IV-A, L.P., Catterton Partners IV-B, L.P., Catterton Partners IV Offshore, L.P. and Catterton Partners IV Special Purpose, L.P. (collectively, "Catterton Partners") so long as they own at least 50% of their originally acquired preferred stock of the company, currently Frank Vest, Jr.; and
- Maxine Clark, who has been selected by Smart Stuff, Inc.

Our amended and restated certificate of incorporation to be effective upon completion of this offering provides that, as of the first annual meeting of stockholders, our board of directors will be divided into three classes, each with staggered three-year terms. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Maxine Clark has been designated as a Class I director, and her term will expire at the 2005 annual meeting of stockholders; Messrs. Barney Ebsworth and William Reisler have been designated as Class II directors, and their terms will expire at the 2006 annual meeting of stockholders; and Messrs. James Gould and Frank Vest have been designated as Class III directors, and their terms will expire at the 2007 annual meeting of stockholders. Currently, all our directors hold office until the next annual meeting of stockholders or until their successors are duly qualified.

We expect our board of directors will elect another outside director within the next several months.

Director Fees

We pay our non-management directors not affiliated with significant stockholders $2,500 per meeting of the board of directors and $1,000 per committee meeting and are granted an option to purchase 2,500 shares upon joining our board and are annually granted an option to purchase 5,000 shares under our 2004 Stock Incentive Plan. Additionally, in May 2004, we paid a $68,250 bonus to one of our former directors, who was neither an officer nor affiliated with a significant stockholder. We do not presently pay any fees to our directors affiliated with significant stockholders or who serve as officers of the company. In the future, we intend to compensate our non-employee directors in an amount which we believe is consistent with amounts paid by comparable public companies. There are no family relationships among our directors and officers. We reimburse our directors for reasonable travel expenses related to board matters.

Board Committees

We have established an audit committee consisting of Frank Vest, Jr., who chairs the committee, James Gould and William Reisler. The audit committee is governed by a written charter which will be reviewed, and amended if necessary, on an annual basis. Under the charter, the audit committee will meet at least four times a year and will be responsible for reviewing the independence, qualifications and quality control procedures of our independent auditors, and will be responsible for recommending the initial or continued retention, or a change in, our independent auditors. In addition, the audit committee will be required to review and discuss with our management and independent auditors our financial statements, our annual and quarterly reports and the auditor's attestation of management's evaluation of our internal controls, as well as the quality and effectiveness of our internal control procedures, critical accounting policies and significant regulatory or accounting initiatives and prepare the audit committee report required to be included in our annual proxy statement. The committee will be required to discuss with management earnings press releases, information provided to rating agencies and our major financial risk exposures. The audit committee's charter also will require the audit committee to establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal control or auditing matters, approve the audit plan and staffing of the internal audit department, report regularly to the board regarding its activities and perform an annual self-evaluation of committee performance. The audit committee will be required to have at least one member who qualifies as an audit committee financial expert, as defined by the rules of the Securities and Exchange Commission.

We have also established a compensation committee consisting of Mr. William Reisler, who serves as chairman, and Messrs. Gould and Vest. The compensation committee will make recommendations to the board of directors regarding compensation arrangements for our executive officers, including goals and annual bonus compensation, and will consult with our management regarding compensation policies and practices. The compensation committee will also make recommendations concerning the adoption of any compensation plans in which management is eligible to participate, including the granting of stock options or other benefits under those plans. The committee will be also required to oversee management succession, prepare the committee's report to be included in our proxy statement, report regularly to the board regarding its activities, review and reassess the adequacy of its charter on an annual basis and conduct an annual self-evaluation of committee performance.

We have also established a nominating and corporate governance committee consisting of Mr. Gould, who serves as chairman, and Messrs. Reisler and Vest. The nominating and corporate governance committee will submit to the board of directors a proposed slate of directors for submission to the stockholders at our annual meeting, recommend director candidates in view of pending additions, resignations or retirements, develop criteria for the selection of directors, review suggested nominees received from stockholders and other and review corporate governance policies and recommend changes to the full board of directors. In addition, the committee will be required to oversee the structure and operations of the board, oversee director orientation and training, oversee and periodically review our corporate governance rules and policies and ethics codes, oversee the annual board and committee self-evaluation process, report regularly to the board regarding its activities, review and reassess the adequacy of its charter on an annual basis and conduct an annual self-evaluation of committee performance.

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EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the compensation of our Chief Executive Bear and each of our other four most highly compensated current executive officers during the fiscal year ended January 3, 2004. We have also included information for two additional executive officers. We refer to these persons as the “named executive officers” elsewhere in this prospectus.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards			
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Compensation**	**Restricted Stock Awards**	**Stock Options/ SARs**	**Long-Term Incentive Payouts**	**All Other Compensation(1)**
Maxine Clark Chief Executive Bear	2003	$309,222	—	—	—	36,234	—	$4,295
John Burtelow Chief Banker Bear	2003	193,242	—	—	—	20,000	—	3,622
Tina Klocke Chief Financial Bear, Treasurer and Secretary	2003	182,307	—	—	—	25,000	—	3,546
Teresa Kroll Chief Marketing Bear	2003	204,273	—	—	—	20,000	—	3,686
Scott Seay Chief Workshop Bear	2003	295,974	—	—	—	20,000	—	1,833
Harold Brooks Former Chief International Bear(2)	2003	251,189	—	—	—	20,000	—	—
Brian Vent Former Chief Operating Bear and Secretary(3)	2003	246,006	—	—	—	30,000	—	4,295

(1) Consists of company contributions to our 401(k) plan (Clark — $2,500; Burtelow — $2,500; Klocke — $2,500; Kroll — $2,500; Seay — $38; and Vent — $2,500) and premiums paid for long-term disability insurance (Clark — $1,795; Burtelow — $1,122; Klocke — $1,046; Kroll — $1,186; Seay — $1,795; and Vent — $1,795).

(2) Mr. Brooks resigned as Chief International Bear effective December 5, 2003.

(3) Mr. Vent resigned as Chief Operating Bear and Secretary effective January 31, 2004. See “— Employment and Separation Agreements.”

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Stock Option Awards

The following table sets forth certain information with respect to stock options granted to each of our named executive officers during the fiscal year ended January 3, 2004.

Option Grants in Fiscal 2003

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted in Fiscal 2003 (%)	Exercise Price or Base Price ($/Sh)	Expiration Date	5%	10%
Maxine Clark	36,234	13.3%	$9.10	4/24/2013		
John Burtelow	20,000	7.4	9.10	4/24/2013		
Tina Klocke	25,000	9.2	9.10	4/24/2013		
Teresa Kroll	20,000	7.4	9.10	4/24/2013		
Scott Seay	20,000	7.4	9.10	4/24/2013		
Harold Brooks(1)	20,000	7.4	9.10	4/24/2013	N/A(1)	N/A(1)
Brian Vent(2)	30,000	11.1	9.10	4/24/2013	N/A(2)	N/A(2)

(1) Mr. Brooks' stock options expired following his resignation on December 5, 2003.

(2) Mr. Vent's stock options expired following his resignation on January 31, 2004. See "— Employment and Separation Agreements."

All options to these executive officers in fiscal 2003 were granted under our 2002 Stock Incentive Plan. The percentage of total options is based on an aggregate of 271,484 shares granted to employees in fiscal 2003. Shares vest at the rate of 25% per year over a four year period from the date of grant. Vesting of the options is accelerated upon the optionee's disability or death and upon a change of control of the company (as defined in the option agreement) or upon a public offering of our common stock. Accordingly, all outstanding options will vest and become exercisable upon completion of this offering. All option grants have a term of ten years but may terminate before their expiration dates if the optionee's status as an employee is terminated. The option grants contain restrictions on transfer of the stock purchased upon exercise of the options, but such restrictions lapse upon a public offering of our common stock.

The exercise price on the date of each grant was equal to at least 100% of the fair market value on the date of grant, as determined by our compensation committee. To support this determination, we retained an independent appraisal firm to provide a valuation of our stock as of the date of these grants.

With respect to the amounts disclosed in the column captioned "Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term," the 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by rules of the Securities and Exchange Commission for illustrative purposes only and do not represent our estimate or projection of our future common stock prices. The dollar amounts under the columns represent the potential realizable value of each grant at the assumed initial public offering price of $ per share of the underlying security at the date of this prospectus appreciates at the indicated rate for the entire remaining term of the option, and that the option is exercised at the exercise price and sold on the last day of the option term at the appreciated price. Actual gains, if any, on stock option exercises are dependent on the future performance of our common stock and overall stock market conditions. The amounts reflected in the table may not necessarily be achieved.

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Stock Option Exercises and Holdings

The following table sets forth information with respect to each of our named executive officers concerning their unexercised options held on January 3, 2004. No options were exercised during fiscal 2003. All options listed become fully exercisable upon the completion of this offering.

The value of "in-the-money" stock options represents the positive spread between the exercise price of stock options and the fair market value of the options, based upon an assumed public offering price of $ per share minus the exercise price per share.

	Options Exercised		Number of Securities Underlying Unexercised Options Held at January 3, 2004		Value of Unexercised, In-the-Money Options at January 3, 2004	
Name	Shares Acquired	Value Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
Maxine Clark	—	—	209,889	176,160		
John Burtelow	—	—	12,000	28,000		
Tina Klocke	—	—	122,800	40,200		
Teresa Kroll	—	—	12,000	28,000		
Scott Seay	—	—	6,250	38,750		
Harold Brooks	—	—	—	—		
Brian Vent	—	—	246,200	60,800(1)		

(1) Mr. Vent exercised all of his outstanding and vested stock options following his resignation, and the Company accelerated the vesting of 9,400 options held by Mr. Vent with an exercise price of $6.04 per share which otherwise would not have vested until the end of the first quarter of fiscal 2004. See "— Employment and Separation Agreements."

Compensation Committee Interlocks and Insider Participation

Our compensation committee currently consists of Messrs. Reisler, Gould and Vest. No member of the compensation committee has served as one of our officers or employees at any time. None of our executive officers serves as a member of the board of directors or compensation committee of any other company that has one or more executive officers serving as a member of our board of directors or compensation committee. Messrs. Reisler, Gould and Vest and a former member, Mr. Ebsworth, were participants in various financing transactions with us, as described under "Certain Relationships and Related Party Transactions."

Limitations on Liability and Indemnification

The amended and restated bylaws which will be in effect upon completion of this offering provide that we will indemnify our directors and officers, and may indemnify our employees and other agents, to the fullest extent permitted by the General Corporation Law of the State of Delaware. We currently have a directors' and officers' liability insurance policy that insures such persons against the costs of defense, settlement or payment of a judgment under certain circumstances. We believe that these indemnification and liability provisions are essential to attracting and retaining qualified persons as officers and directors.

We intend to enter into indemnification agreements with our directors and executive officers. Under these agreements, we would be required to indemnify them against all expenses, judgments, fines, settlements and other amounts actually and reasonably incurred, in connection with any actual, or any threatened, proceeding if any of them may be made a party because he or she is or was one of our directors or officers. We are obligated to pay these amounts only if the officer or director acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to our best interests. With respect to any criminal proceeding, we are obligated to pay these amounts only if the officer or director had no reasonable cause to believe that his or her conduct was unlawful. The indemnification agreements also set forth procedures that will apply in the event of a claim for indemnification thereunder.

In addition, the amended and restated certificate of incorporation which will be in effect upon completion of this offering provides that the liability of our directors for monetary damages will be eliminated to the fullest extent permissible under the General Corporation Law of the State of Delaware. This provision in our amended and restated certificate of incorporation does not eliminate a director's duty of care, and, in appropriate circumstances, equitable remedies such as an injunction or other forms of non-monetary relief would remain available. Each director will continue to be subject to liability for any breach of the director's duty of loyalty to us, for acts or omissions not in good faith or involving intentional misconduct or knowing violations of law, for acts or omissions that the director believes to be contrary to our best interests or our stockholders, for any transaction from which the director derived an improper personal benefit, for improper transactions between the director and us, and for improper distributions to stockholders and loans to directors and officers. This provision also does not affect a director's responsibilities under any other laws, such as the federal securities laws or state or federal environmental laws.

Employment and Separation Agreements

Employment agreements. We have employment agreements with Maxine Clark, our Chief Executive Bear, Barry Erdos, our President and Chief Operating Officer Bear and our named other executive officers, as follows: Scott Seay, Tina Klocke, Teresa Kroll and John Burtelow.

Ms. Clark's agreement has an initial term of five years from May 1, 2004 and renews from year-to-year thereafter. The agreement may be terminated by us prior to the end of the term upon death, disability, for cause (as defined in the agreement) or, following the initial term, without cause. Ms. Clark may terminate the agreement in the event we materially breach the agreement and fail to cure such breach within 30 days after notice thereof. If Ms. Clark terminates her employment for good reason (as defined in the agreement), or if we terminate her employment without cause after the initial term, we are obligated to continue her base salary for a period of 12 months after her termination, such payments to be reduced by any amount received from a subsequent employer during such period. In the event that during the initial term the Company terminate Ms. Clark without cause in violation of the terms of the agreement, Ms. Clark will be entitled to damages in an amount not less than the sum of (i) the amount of base salary Ms. Clark would have been paid during the remainder of the initial term, and (ii) an amount equal to the bonus Ms. Clark would have earned during the initial term (but in no event less the average bonus paid to Ms. Clark during the two fiscal years immediately preceding such termination).

As compensation for her services, Ms. Clark will receive an annual base salary of not less than $375,000, which will be reviewed annually and be commensurate with similarly situated executives with firms similarly situated to us. If Ms. Clark's individualized performance targets are achieved, her salary must be increased annually by no less than the average percentage increase given to all of our other executive employees during the year preceding the increase. If we exceed certain performance objectives agreed upon annually by Ms. Clark and our board of directors, Ms. Clark will receive an annual bonus of up to 250% of her annual salary for the current fiscal year, payable in either cash, stock options or a combination thereof. For subsequent fiscal years, Ms. Clark will be eligible for bonuses which, if achieved, will cause her to be our highest paid employee. The compensation committee of our board of directors will determine the amount and form of the bonuses. Ms. Clark's agreement also provides for an award of 36,234 shares of our stock pursuant to our 2000 Stock Option Plan or our 2002 Stock Incentive Plan (or any successor plan). Ms. Clark will also receive an automobile allowance and such other perquisites and benefits as we may award her from time to time. The agreement also requires us to maintain life insurance on Ms. Clark in the amount of $2 million under which we are the beneficiary.

Mr. Erdos' agreement has an initial term of three years from April 26, 2004 and renews from year-to-year thereafter. The agreement may be terminated by us prior to the end of the term upon death, disability, for cause (as defined in the agreement) or without cause. Mr. Erdos may terminate the agreement in the event we materially breach the agreement and fail to cure the breach after 30 days' notice thereof. If Mr. Erdos terminates his employment for good reason (as defined in the agreement), we are obligated to continue his base salary for a period of 12 months after termination (unless termination occurs during the first twelve months of the agreement, in which case we will continue to pay his base salary for 24 months after termination), such payments to be reduced by any amounts received from a subsequent employer. As compensation for his services, Mr. Erdos will receive an annual base salary of not less than $500,000, which rate will be reviewed annually by the compensation committee of our board of directors and will be commensurate for similarly situated executives with firms similarly situated to us. If Mr. Erdos' individualized performance targets are achieved, his salary will be increased annually by no less than the average percentage increase given to all of our other executive employees during that fiscal year. If we exceed certain performance objectives for any fiscal year, Mr. Erdos will receive an annual bonus of up to 50% of his annual base pay for such fiscal year, payable in either cash, stock, stock options or a combination thereof; provided that Mr. Erdos' bonus for fiscal 2004 will not be less than $250,000. We also paid $150,000 to Mr. Erdos as a relocation allowance.

We also entered into an Incentive Stock Option Agreement with Mr. Erdos pursuant to our 2002 Stock Option Plan. Under the agreement, we granted Mr. Erdos the option to purchase up to 100,000 shares of our common stock for a period of 10 years, at the purchase price of $8.78 per share, subject to certain restrictions. However, these restrictions do not apply in the event we undergo a change of control or a public offering (as such terms are defined in the agreement). In the event Mr. Erdos desires to transfer his shares pursuant to a bona fide purchase offer, we have a right of first refusal to purchase any and all such shares.

Ms. Klocke's agreement has an initial term of three years from March, 2004 and renews from year-to-year thereafter. The agreement may be terminated by us prior to the end of the term upon death, disability, for cause (as defined in the agreement) or without cause. Ms. Klocke may terminate the agreement in the event we materially breach the agreement or we relocate Ms. Klocke to a location more than 100 miles from St. Louis and fail to cure such breach after notice thereof. If Ms. Klocke terminates her employment for good reason (as defined in the agreement), we are obligated to continue her base salary for a period of 12 months after her termination, such payments to be reduced by any amounts received from a subsequent employer. As compensation for her services, Ms. Klocke will receive an annual base salary at a rate not less than $190,000 which rate will be reviewed annually and be commensurate with similarly situated executives with firms similarly situated to us. If Ms. Klocke's individualized performance targets are achieved, her salary must be increased annually by no less than the average percentage increase given to all of our other executive employees during that fiscal year. If we exceed certain performance objectives agreed upon annually by Ms. Klocke and our board of directors, Ms. Klocke will receive an annual bonus of up to 50% of her annual base salary, payable in either cash, stock, stock options or a combination thereof. Ms. Klocke's agreement also provides for an award of options to purchase 163,000 shares of our stock pursuant to our 2000 Stock Option Plan and any option agreements used in connection with the plan. For 2004, Ms. Klocke also has options to purchase an additional 25,000 shares pursuant to our 2002 Stock Option Plan and any applicable option agreements.

Ms. Kroll's agreement has a term of one year from September 10, 2003 and renews from year-to-year thereafter. The agreement may be terminated by us prior to the end of the term upon death, disability, or for cause (as defined in the agreement) or without cause. Ms. Kroll may terminate the agreement in the event we materially breach the agreement and fail to cure such breach within thirty days after notice thereof. As compensation for her services, Ms. Kroll will receive an annual base salary at a rate not less than $185,000, which rate will be reviewed annually by the compensation committee of our board of directors and will be commensurate with similarly situated executives with firms similarly situated to us. If Ms. Kroll meets her individualized performance targets, Ms. Kroll's salary must be increased annually by no less than the average percentage increase given to all of our other executive employees during the year preceding the increase. If we exceed certain performance objectives, Ms. Kroll will receive an annual bonus of up to 35% of her annual salary, payable in either cash, stock options or a combination thereof. Ms. Kroll and our board of directors will determine the amount and form of the bonus. Under the agreement, we also paid Ms. Kroll a $10,000 signing bonus. Ms. Kroll's agreement also provides for an award of options to purchase 20,000 shares of our stock pursuant to our 2000 Stock Option Plan.

Mr. Seay's agreement has an initial term of three years from March, 2004 and renews from year-to-year thereafter. The agreement may be terminated by us prior to the end of the term upon Mr. Seay's death, upon 30 days' prior written notice for disability, or for cause (as defined in the agreement) or without cause. Mr. Seay may terminate the agreement in the event we materially breach the agreement, provided we do not cure the breach after notice thereof. If we terminate Mr. Seay's employment for any reason other than for death, disability or for cause, we are obligated to continue his salary for a period of 12 months after termination, such payments to be reduced by any amounts received from a subsequent employer. As compensation for his services, Mr. Seay will receive an annual base salary of not less than $293,000, which rate will be reviewed annually by the compensation committee of our board of directors and will be commensurate for similarly situated executives with firms similarly situated to us. If Mr. Seay's individualized performance targets are achieved, his salary will be increased annually by no less than the average percentage increase given to all of our other executive employees during that fiscal year. If we exceed certain performance objectives for any fiscal year, Mr. Seay will receive an annual bonus of up to 50% of his annual base pay for such fiscal year, payable in either cash, stock, stock options or a combination thereof. Mr. Seay was also granted options to purchase 45,000 shares of our common stock pursuant to our 2000 Stock Option Plan. For fiscal 2004, Mr. Seay was also granted options to purchase an additional 20,000 shares pursuant to our 2002 Stock Option Plan.

Mr. Burtelow's agreement has a term of one year from July 9, 2001 and renews from year-to-year thereafter. The agreement may be terminated upon death, disability, for cause (as defined in the agreement) or without cause. Mr. Burtelow may terminate the agreement in the event we materially breach the agreement and fail to cure such breach after notice thereof. If we terminate Mr. Burtelow's employment for any reason other than death, disability or for cause, we are obligated to continue his base salary after termination for the shorter of (1) six months or (2) the date on which Mr. Burtelow has obtained other employment. As compensation for his services, Mr. Burtelow will receive an annual base salary at a rate not less than $175,000, which rate will be reviewed annually by the compensation committee of our board of directors and will be commensurate with similarly situated executives with firms similarly situated to us. If Mr. Burtelow meets his individualized performance targets, Mr. Burtelow's salary must be increased annually by no less than the average percentage increase given to all of our other executive employees during the year preceding the increase. If we exceed certain performance objectives agreed upon annually by Mr. Burtelow and our board of directors, Mr. Burtelow will receive an annual bonus of up to 35% of his annual salary, payable in either cash, stock options or a combination thereof. Mr. Burtelow and our board of directors will determine the amount and form of the bonus. Mr. Burtelow's agreement also provides for an award of options to purchase 20,000 shares of our stock pursuant to our 2000 Stock Option Plan.

The agreements for each of our named executive officers provide that:

- for the term of the agreement and for three years thereafter, the employee may not become employed by or interested directly or indirectly in or associated with our competitors who are located within the United States or within any country where we have established a retail presence (except for Mr. Burtelow's and Ms. Kroll's agreements, which provides that they may not become employed by or interested directly or indirectly in or associated with our competitors who are located within 100 miles of any of our retail stores); and

- in the event of the employee's termination due to death, disability or his or her right to terminate due to our breach as provided in the agreement, he or she, or his or her beneficiaries or estate, will still be entitled to a bonus for such year prorated based on the number of full weeks the employee was employed during the year.

Separation agreement. Pursuant to his departure from us, which was effective January 31, 2004, we entered into a separation agreement and general release (the "Separation Agreement") with Brian Vent, our former Chief Operating Bear and Secretary. Under the Separation Agreement, we were obligated to pay Mr. Vent his base monthly salary of $19,833 for a period of six months following his separation date. Mr. Vent was also eligible to participate in our group health plans for a period of six months following the separation date. Pursuant to the Separation Agreement, the Company accelerated the vesting of 9,400 options held by Mr. Vent with an exercise price of $6.04 per share which otherwise would not have vested until the end of the first quarter of fiscal 2004. Mr. Vent exercised all of his outstanding and vested stock options shortly after his departure. In accordance with the terms of the Separation Agreement, Mr. Vent released us from all claims other than those rights which are continuing and related to Mr. Vent's stock ownership. Mr. Vent also agreed that he will not compete with us for a period of three years; provided, however, that Mr. Vent is entitled to obtain employment with another company so long as (i) the sale of stuffed animals is not the principal business of such employer, (ii) Mr. Vent has no direct or personal involvement in the sale of stuffed animals, and (iii) neither Mr. Vent nor his relatives or affiliates own more than 1% of the company.

The Separation Agreement also provides that notwithstanding the provisions of the loan agreement between us and Mr. Vent, which requires that the loan become payable in the event of his termination, the payment of the loan shall not be accelerated as a result of his termination. Instead, the principal amount of the loan shall be due and payable in accordance with the terms of the note as if Mr. Vent had not been terminated by us. See "Certain Relationships and Related Party Transactions — Officer Loans."

Employee Stock Plans

As of July 3, 2004, options to purchase 1,047,283 shares of common stock were outstanding at a weighted average exercise price of $6.52 per share under our 2000 and 2002 stock plans. All outstanding options will vest and become exercisable upon completion of this offering. We have also adopted a 2004 stock plan under which no awards have been granted as of August 9, 2004.

2000 Stock Option Plan

Our 2000 stock option plan provided for the granting to employees of incentive stock options and for the granting to other individuals as selected by the compensation committee of non-qualified stock options. The plan, as amended, authorizes 2,200,000 shares of our common stock to be issued under the plan. We are no longer granting options under our 2000 plan.

For incentive stock options, the purchase price of the common stock under each incentive stock option must equal at least 100% of the fair market value, or at least 110% of the fair market value with respect to optionees who own more than 10% of the total combined voting power of all classes of our stock. Our compensation committee determines the fair market value in good faith and in a manner consistent with applicable law. For non-qualified stock options, the compensation committee determines the purchase price of the common stock under each option.

Options granted under the plan are generally not transferable by the optionee except by will or the laws of descent and distribution, and each option is exercisable, during the lifetime of the optionee, only by the optionee. Options generally must be exercised during the optionee's continuing status as an employee or, in the discretion of the administrators, within three months after termination other than for cause. If the optionee dies with three months after termination other than for cause or becomes disabled, the options may be exercised within 12 months after the optionee's death or termination by disability. However, in no event may an option be exercised later than the earlier of the expiration of the term of the option or ten years from the date of the grant of the option or, where an optionee owns stock representing more than 10% of the total combined voting power of all classes of stock, five years from the date of the grant of the option.

The plan may be amended, altered, suspended or terminated by the administrator at any time. We may not alter the rights and obligations under any option granted before amendment of the plan without the written consent of the affected optionee. Unless terminated sooner, the plan will terminate automatically in April 2010.

2002 and 2004 Stock Incentive Plans

Our 2002 stock incentive plan was adopted by our board of directors and approved by our stockholders in April 2003. Our 2004 stock incentive plan was adopted by our board of directors and approved by our stockholders in August 2004. The 2002 plan provides for the granting to employees of incentive stock options and for the granting to any individual selected by our compensation committee of non-qualified stock options, stock appreciation rights and other cash or stock-based awards. The 2004 plan permits such awards to any employee, director or consultant of ours or any of our affiliates, or any other entity designated by our board of directors in which we have an interest, who is selected by our compensation committee to receive an award. The 2002 plan authorizes 2,200,000 shares of our common stock to be issued under the plan, less the shares previously issued under the 2000 plan (net of forfeitures) and any shares issued under restricted stock agreements. The 2004 plan authorizes 3,700,000 shares of our common stock to be issued under the plan, less the shares previously issued under the 2000 or 2002 stock plans (net of forfeitures) and any shares issued under restricted stock agreements. Our compensation committee administers the 2002 and 2004 plans. As of July 3, 2004, options to purchase 1,047,283 shares were outstanding under our 2002 plan. We are no longer granting awards under our 2002 plan. As of August 9, 2004, we had not granted any awards under our 2004 plan.

On the date of the grant, the exercise price of incentive stock options must equal at least 100% of the fair market value, or 110% of the fair market value with respect to optionees who own more than 10% of the total combined voting power of all classes of stock. The fair market value is determined by computing the arithmetic mean of our high and low stock prices on a given determination date if our stock is publicly traded or, if our stock is not publicly traded, by the administrator in good faith. The exercise price on the date of grant is determined by the compensation committee in the case of non-qualified stock options.

Options generally must be exercised during the optionee’s continuing status as an employee or within three months after the optionee’s termination of employment. If an optionee’s employment is terminated because the optionee becomes disabled, the options may be exercised within one year after the optionee’s termination. If an optionee dies while under our employ or within three months after termination of employment, the options immediately vest and the optionee’s legatees or personal representatives may exercise the options for a period of up to one year after the optionee’s death, but not after ten years from the grant of the option.

Stock appreciation rights granted under each plan are subject to the same terms and restrictions as the option grants and may be granted independent of, or in connection with, the grant of options. The compensation committee determines the exercise price of stock appreciation rights. A stock appreciation right granted independent of an option entitles the participant to payment in an amount equal to the excess of the fair market value of a share of our common stock on the exercise date over the exercise price per share, times the number of stock appreciation rights exercised. A stock appreciation right granted in connection with an option entitles the participant to surrender an unexercised option and to receive in exchange an amount equal to the excess of the fair market value on the exercise date of a share of our common stock over the exercise price per share for the option, times the number of shares covered by the option which is surrendered. Fair market value is determined in the same manner as it is determined for options.

The compensation committee may also grant awards of stock, restricted stock and other awards valued in whole or in part by reference to the fair market value of our common stock. These stock-based awards, in the discretion of the compensation committee, may be, among other things, subject to completion of a specified period of service, the occurrence of an event or the attainment of performance objectives. Additionally, the compensation committee may grant awards of cash, in values to be determined by the compensation committee. If any awards are intended to be deductible under Section 162(m) of the Internal Revenue Code, the committee must choose from certain performance measures for the awards.

Awards granted under either plan are generally not transferable by the participant except by will or the laws of descent and distribution, and each award is exercisable, during the lifetime of the participant, only by the participant or his or her guardian or legal representative, unless permitted by the committee. Additionally, any shares of our common stock received pursuant to an award granted under the plan, are subject to our right of first refusal prior to certain transfers by the participant and our buy-back rights upon termination of the participant's employment. The right of first refusal and buy-back rights terminate upon consummation of an initial public offering.

The compensation committee may provide for accelerated vesting or termination in exchange for cash of any outstanding awards or the issuance of substitute awards upon consummation of a change in control, as defined in the plan.

Either plan may be amended, altered, suspended or terminated by the administrator at any time. We may not alter the rights and obligations under any award granted before amendment of the plan without the consent of the affected participant. Unless terminated sooner, the 2002 plan will terminate automatically in August 2012 and the 2004 plan in August 2014.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We intend to establish procedures for the review and pre-approval of all transactions between us and any of our directors or executive officers. Pursuant to our code of ethics and the charter of our nominating and corporate governance committee, which will be adopted prior to this offering, any director or executive officer intending to enter into a transaction with us must provide the chair of our corporate governance and nominating committee with all relevant details of the transaction. The transaction will then be evaluated by the corporate governance and nominating committee to determine if the transaction is in our best interests and whether, in the committee's judgment, the terms of such transaction are at least as beneficial to us as the terms we could obtain in a similar transaction with an independent third party. We cannot assure you that all transactions described in this section are on terms that are at least as beneficial to us as the terms we could obtain in a similar transaction with an independent third party. However, pursuant to the procedures described above, we expect that future transactions with related parties will be on terms that are at least as beneficial to us as the terms we could obtain in a similar transaction with an independent third party.

Formation and Conversion to Corporation

In September 1997 we began operating as a limited liability company under the laws of the state of Missouri. On April 3, 2000, we converted into a Delaware corporation by merging Build-A-Bear Workshop, L.L.C. into Build-A-Bear Workshop, Inc. In connection with this merger, we issued to each member of the limited liability company shares of one or more series of preferred stock having dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences that were substantially the same as their corresponding limited liability company interests, as follows:

- 3,418,306 shares of series C-1 preferred stock were issued to Smart Stuff, Inc., a corporation which is wholly-owned by Maxine Clark, our Chief Executive Bear;

- 1,137,898 shares of series A-1 preferred stock and 911,383 shares of series C-2 preferred stock were issued to Windsor Capital, Inc., a corporation formed by Barney Ebsworth, one of our directors, and another individual, and 474,124 shares of series C-2 preferred stock were issued to an affiliate of Windsor;

- 23,527 shares of common stock, 139,981 shares of series A-2 preferred stock and 275,352 shares of series B-1 preferred stock were issued to Hycel Partners V, L.L.C., an affiliate of Hycel Properties Co., the entity from which we leased our Richmond Heights, Missouri store until June 2003;

- 98,804 shares of common stock, 961,263 shares of series A-3 preferred stock and 1,453,072 shares of series B-2 preferred stock were issued to Walnut Capital Partners, with which James Gould, one of our directors, is affiliated;

- 10,352 shares of common stock, 205,824 shares of series A-4 preferred stock and 311,003 shares of series B-3 preferred stock were issued to Kansas City Equity Partners, with which William Reisler, one of our directors, is affiliated; and

- 64,500 shares of series C-3 preferred stock were issued to each of Brian Vent, our former Chief Operating Bear and Secretary and Wayne L. Smith, and 65,276 shares of series C-3 preferred stock were issued to Adrienne Weiss.

Also in connection with this merger and conversion into a corporation, we issued 707,992 shares of series A-5 preferred stock to entities affiliated with Catterton Partners, with which Frank Vest, Jr., one of our directors, is affiliated, at a purchase price of $5.649780 per share for an aggregate of $4 million and 1,069,786 shares of series B-4 preferred stock at a purchase price of $3.739067 per share for an aggregate of $4 million. In addition, we issued more than $60,000 of these securities to the following officers, directors and holders of more than 5% of our common stock and their affiliates:

- an entity affiliated with Kansas City Equity Partners purchased 25,884 shares of series A-5 preferred and 39,112 shares of series B-4 preferred;

- Barney Ebsworth, one of our directors, purchased 126,380 shares of series A-5 preferred and 190,963 shares of series B-4 preferred;

- an entity affiliated with Ms. Clark purchased 171,200 shares of series A-5 preferred and 258,686 shares of series B-4 preferred; and

- Brian Vent, our Chief Operating Bear and Secretary, purchased 3,230 shares of series A-5 preferred and 4,881 shares of series B-4 preferred.

In addition, through a purchase of membership interests in Clark/ Fox, L.L.C., which purchased shares of our series A-5 and series B-4 preferred stock:

- affiliates of one of our two largest vendors acquired beneficial ownership of 8,628 shares of our series A-5 preferred and 13,032 shares of our series B-4 preferred stock; and

- the father of Mr. Vent acquired beneficial ownership of 22,497 shares of our series A-5 preferred stock and 26,076 shares of our series B-4 preferred stock.

Each share of our series A, series B and series C preferred stock was originally convertible on demand into shares of our common stock on a one-for-one basis, after giving effect to accrued but unpaid dividends. In August, 2004, we amended our certificate of incorporation to modify the conversion rights of the preferred stock. After the amendment, we paid a special $10.0 million cash dividend to our stockholders, including holders of preferred stock on an as-converted basis, and each share of our series A, series B and series C preferred stock is currently convertible on demand into common stock as follows:

	Series A-1, A-2 and A-3	Series A-4 and A-5	Series B and C
Shares of common stock into which each share of preferred stock may be converted	1.303333	1.303334	1.000000

Series D Financing

In September, November and December 2001, we sold 3,467,337 shares of our series D preferred stock at a price per share of $6.10. We sold the shares pursuant to a preferred stock purchase agreement, a stockholders' agreement and a registration rights agreement under which we made customary representations and warranties and agreed to customary operating and other covenants, and provided the purchasers with registration rights. The registration rights are the only rights that survive beyond this offering. See "— Agreements with Investors" below.

The purchasers of more than $60,000 of these securities included, among others, the following officers, directors and holders of more than 5% of our common stock including their affiliates:

- entities affiliated with Catterton Partners purchased 1,361,066 shares of series D preferred stock;
- entities affiliated with Ms. Clark purchased 815,575 shares of series D preferred stock;
- an entity affiliated with Walnut purchased 677,869 shares of series D preferred stock;
- an entity affiliated with Kansas City Equity Partners purchased 426,230 shares of series D preferred stock; and
- Mr. Vent purchased 18,409 shares of series D preferred stock.

In addition, through a purchase of membership interests in Clark/ Fox II, L.L.C. and Clark/ Fox III, L.L.C., which purchased shares of our series D preferred stock:

- Ms. Klocke acquired beneficial ownership of 14,653 shares of our series D preferred stock;
- Mr. Brooks acquired beneficial ownership of 29,306 shares of our series D preferred stock;
- the father of Mr. Vent acquired beneficial ownership of 45,557 shares of our series D preferred stock;
- our two largest vendors acquired beneficial ownership of 122,881 and 22,884 shares of our series D preferred stock; and
- three of our other vendors acquired beneficial ownership of a total of 20,518 shares of our series D preferred stock.

Each share of our series D preferred stock was originally convertible on demand into shares of our common stock on a one-for-one basis, after giving effect to accrued but unpaid dividends. In August, 2004, we amended our certificate of incorporation to modify the conversion rights of the preferred stock. After the amendment, we paid a special $10.0 million cash dividend to our stockholders, including holders of preferred stock on an as-converted basis, and each share of our series D preferred stock is currently convertible on demand into common stock as follows:

	Date of Issuance		
	September 2001	**November 2001**	**December 2001**
Shares of common stock into which each share of preferred stock may be converted	1.200083	1.188825	1.183108

Agreements with Investors

On September 21, 2001, we entered into an amended and restated registration rights agreement and an amended and restated stockholders' agreement with our stockholders in connection with our series D financing. The registration rights agreement provides registration rights to the holders of our preferred and common stock. For more information on these registration rights, see "Description of Capital Stock — Registration Rights."

Under the stockholders' agreement, each of the stockholders has agreed to take all action necessary, so as to cause our authorized number of directors to be seven, with:

- one member designated by each of Catterton Partners, Walnut, Kansas City Equity Partners, and a trust established by Mr. Ebsworth, in each case so long as each stockholder holds 50% or more of such stockholder's originally acquired preferred stock; and
- two members designated by Smart Stuff, Inc., one of whom must be Ms. Clark.

The stockholders' agreement also provides for:

- a right of first offer in favor of the other parties to the agreement and to us if a party desires to transfer our securities;
- "drag-along" rights in favor of Walnut, Windsor and Catterton Partners if all three of such entities desire to transfer their shares to a third party and Ms. Clark is no longer employed by us or has disposed of her beneficial interest in our stock; and
- preemptive rights in favor of the parties to the agreement in the event we issue new securities, excluding securities issued and sold pursuant to a registration statement filed under the Securities Act.

The stockholders' agreement will terminate on the closing of this offering.

Officer Loans

Pursuant to a restricted stock purchase agreement dated April 3, 2000, between us and Maxine Clark, our Chief Executive Bear and President, Ms. Clark purchased 274,815 shares of our common stock at $4.50 per share for a total purchase price of $1,236,667. Ms. Clark paid for the common stock with the proceeds of a loan from us evidenced by a secured promissory note which is supported by a pledge of the shares purchased. The loan bears interest at 6.60% per annum, and all principal and interest is payable on the maturity date. The largest aggregate amount of indebtedness outstanding at any time under this loan was $1,584,837, which was also the amount of indebtedness outstanding as of July 3, 2004. Recourse to Ms. Clark's assets (other than the pledged shares) is limited. The loan is due on the earlier of April 2005 or 90 days following the termination of Ms. Clark's employment with us.

Pursuant to two restricted stock purchase agreements, each dated September 19, 2001, between us and each of Brian Vent, our former Chief Operating Bear and Secretary, and Tina Klocke, our Chief Financial Bear, Treasurer and Secretary, each of Mr. Vent and Ms. Klocke purchased 20,491 shares of our common stock at $6.10 per share for a total purchase price of $124,995 each. Mr. Vent and Ms. Klocke each paid for the common stock with the proceeds of a loan from us evidenced by a secured promissory note which is supported by a pledge of the shares purchased. Each of the loans bears interest at 4.82% per annum, and all principal and interest is payable on the maturity date. The largest aggregate amount of indebtedness outstanding at any time under each loan was $141,747, which was also the amount of indebtedness outstanding under each loan as of July 3, 2004. Our recourse under the notes is limited in each case to the pledged shares. The loans are each due on September 2006 or, in the case of Ms. Klocke, 90 days following the termination of her employment with us, if earlier.

Store Fixtures and Furniture

We purchased fixtures for new stores and furniture for our corporate offices from NewSpace, Inc. Robert Fox, the husband of Ms. Clark, our Chief Executive Bear, owns 100% of NewSpace. The total cost of these fixtures and furniture amounted to $3,015,900 in fiscal 2001, $2,839,900 in fiscal 2002, $2,705,900 in fiscal 2003 and $821,600 in the first half of fiscal 2004. We expect to continue to purchase store fixtures from NewSpace.

Leases

We currently sublet a portion of the space for our corporate headquarters and adjacent web fulfillment site from NewSpace under a separate sublease agreement. Our sublease is subject to the terms and conditions of the prime lease between NewSpace and First Industrial Realty Trust. The sublease and the lease to which it relates are being renegotiated and we expect to lease these spaces directly from First Industrial Realty Trust after January 1, 2005. Lease payments under this sublease amounted to $187,000 in fiscal 2001, $212,300 in fiscal 2002, $215,300 in fiscal 2003 and $98,800 in the first half of fiscal 2004.

Until June 2003, we leased our retail store in Richmond Heights, Missouri from Hycel Properties Co., an affiliate of Hycel Partners V, which at the time of our conversion to a corporation owned greater than 5% of our series A-2 and B-1 preferred stock. The mall in which our Richmond Heights, Missouri store is located was sold by Hycel Properties Co. in June 2003 to General Growth Properties, Inc. Pursuant to the sale, our lease was assigned to General Growth. Lease payments under this lease agreement amounted to $199,000 in fiscal 2001, $193,400 in fiscal 2002, $78,400 in fiscal 2003 and none in the first half of fiscal 2004.

Real Estate Management

We also have contracts for real estate consulting services, construction management services and facilities management services with Hycel Properties. The real estate consulting contract expires on December 31, 2005 and the construction management services contract expires on December 31, 2004. The real estate consulting services contract contains a mutual exclusivity clause with regard to real estate consulting services and provides for payment of a monthly fee of $4,000, plus a success fee of $7,500 for each lease we enter into in the United States and $1,000 for each lease we enter into in Canada. The construction management services agreement provides for a fixed fee of $252,000, paid in twelve equal monthly installments, for up to eighteen stores, including one store in Manhattan, New York, which counts as three stores and additional fixed fees for each additional store. The facility management contract expires on December 31, 2004 and provides for payment of fixed fees of $5,000 per month. We paid $930,200 in fiscal 2001, $1,041,000 in fiscal 2002, $960,300 in fiscal 2003 and $281,700 in the first half of fiscal 2004 under these contracts.

Design Services

We paid $257,600 in fiscal 2001, $127,000 in fiscal 2002, $230,100 in fiscal 2003 and $127,500 in the first half of fiscal 2004 for design and other creative services to Adrienne Weiss Company, which is owned by Adrienne Weiss, who at the time of our conversion to a corporation held greater than 5% of our series C-3 preferred stock. We have a copyright assignment agreement with Ms. Weiss to secure our ownership rights in the works she creates on our behalf. We expect to continue to utilize Ms. Weiss' services in fiscal 2004.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information known to us with respect to beneficial ownership of our common stock as of July 3, 2004, as adjusted to reflect the sale of the shares offered, and as adjusted to reflect the sale of the shares offered, assuming the exercise of the underwriters' over-allotment option, by:

- each person known by us to own beneficially more than 5% of our outstanding common stock;
- each of our directors;
- each named executive officer;
- all of our directors and executive officers as a group; and
- the selling stockholders.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. Such rules provide that in calculating the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days after July 3, 2004 are deemed outstanding. However, for each person listed below we have included all options held by such person even if they were not exercisable within 60 days of July 3, 2004 because all outstanding options will vest and become exercisable upon the consummation of this offering. For purposes of calculating beneficial ownership percentages, shares of common stock subject to options and warrants are considered outstanding and beneficially owned by the person holding the options or warrants but are not treated as outstanding for purposes of computing the percentage ownership of any other person. As of July 3, 2004, there were 419,156 shares of common stock outstanding. Immediately following this offering and the mandatory conversion of our preferred stock into common stock, 18,051,486 shares of common stock will be outstanding. This table assumes no exercise of the underwriters' over-allotment option. To our knowledge, except as set forth in the footnotes to this table and subject to applicable community property laws where applicable, each person named in the table has sole voting and investment power with respect to the shares set forth opposite such person's name. Except as otherwise indicated, the address of each of the persons in this table is as follows: c/o Build-A-Bear Workshop, Inc., 1954 Innerbelt Business Center Drive, St. Louis, Missouri 63114.

	Shares Beneficially Owned Prior to the Offering			Shares Beneficially Owned After the Offering			Shares Beneficially Owned After Over-Allotment(1)	
Name	Number	Percent	Number of Shares Offered(1)	Number	Percent	Number of Over-Allotment Shares Being Offered(1)	Number	Percent
Maxine Clark(2)	5,568,563	29.4%						
CP4 Principals, L.L.C.(3)	3,624,989	19.1						
Walnut Capital and affiliates(4)	3,477,985	18.4						
Barney Ebsworth(5)	2,834,912	15.0						
KCEP Ventures II, L.P.(6)	1,173,971	6.2						
Frank Vest, Jr.(7)	3,624,989	19.1						
James Gould(8)	3,477,985	18.4						
William Reisler(9)	1,173,971	6.2						
John Burtelow(10)	60,000	*						
Barry Erdos(11)	100,000	*						
Tina Klocke(12)	208,491	1.1						
Teresa Kroll(13)	60,000	*						
Scott Seay(14)	65,000	*						
Harold Brooks(15)	—	*						
Brian Vent(16)	261,346	1.4						
All directors and executive officers as a group (10 persons)(17)	17,173,912	90.6						
Other Selling Stockholders:								
Clark/Fox entities(18)	1,453,159	7.7%						
Hycel Partners V(19)	697,296	3.7						
Christiane Ebsworth Ladd(20)	474,124	2.5						

* Less than 1.0%.

(1) Certain stockholders are obligated to sell additional shares of common stock to the underwriters if the underwriters exercise their over-allotment option.

(2) Represents:

- 274,815 restricted shares and options to purchase 422,283 shares, which are exercisable or will become exercisable immediately upon completion of this offering, held by Maxine Clark; and
- 3,418,306 shares held by Smart Stuff, Inc., assuming conversion of our series C-1 convertible preferred stock.

- 651,846 shares held by Clark/ Fox, L.L.C., assuming conversion of our series A-5 convertible preferred stock, series B-4 convertible preferred stock and series D convertible preferred stock;

- 670,395 shares held by Clark/ Fox II, L.L.C., assuming conversion of our series D convertible preferred stock; and

- 130,918 shares held by Clark/ Fox III, L.L.C., assuming conversion of our series D convertible preferred stock.

Ms. Clark controls the voting and/or investment power for the shares held by Smart Stuff, Inc. as its president and sole shareholder. Ms. Clark exercises voting and/or investment powers for the shares held by Clark/ Fox, L.L.C., Clark/ Fox II, L.L.C. and Clark/ Fox III, L.L.C. as the manager of each of the Clark/ Fox entities. Although Ms. Clark may be deemed to be the beneficial owner, Ms. Clark disclaims beneficial ownership of the shares owned by the Clark/ Fox entities except to the extent of her pecuniary interest therein, which consists of 69,498 shares of Clark/ Fox, L.L.C., 57,372 shares of Clark/ Fox II, L.L.C., and 18 shares of Clark/ Fox III, L.L.C.

(3) Represents:

- 1,612,508 shares held by Catterton Partners IV, L.P., assuming conversion of our series A-5 convertible preferred stock, series B-4 convertible preferred stock and Series D convertible preferred stock;

- 565,331 shares held by Catterton Partners IV-A, L.P., assuming conversion of our series A-5 convertible preferred stock, series B-4 convertible preferred stock and series D convertible preferred stock;

- 39,413 shares held by Catterton Partners IV-B, L.P., assuming conversion of our series A-5 convertible preferred stock, series B-4 convertible preferred stock and series D convertible preferred stock;

- 48,353 shares held by Catterton Partners IV Special Purpose, L.P., assuming conversion of our series A-5 convertible preferred stock, series B-4 convertible preferred stock and series D convertible preferred stock; and

- 1,359,385 shares held by Catterton Partners IV Offshore, L.P., assuming conversion of our series A-5 convertible preferred stock, series B-4 convertible preferred stock and series D convertible preferred stock.

Catterton Managing Partner IV, L.L.C. is the general partner of Catterton Partners IV, L.P., Catterton Partners IV-A, L.P. and Catterton Partners IV-B, L.P. and the managing general partner of Catterton Partners IV Special Purpose, L.P. and Catterton Partners IV Offshore, L.P. CP4 Principals, L.L.C. is the Managing Member of Catterton Managing Partner IV, L.L.C. The address for Catterton Partners is 7 Greenwich Office Park, 599 West Putnam Avenue, Suite 200, Greenwich, Connecticut 06830. CP4 Principals is managed by a managing board. The members of the managing board are J Michael Chu, Craig H. Sakin, Marc C. Cummins and Frank M. Vest, Jr. These individuals disclaim beneficial ownership of the shares held by the Catterton funds.

(4) Represents:

- 2,664,485 shares held by Walnut Capital Partners, L.P., assuming conversion of our series A-3 convertible preferred stock and series B-2 convertible preferred stock; and

- 813,499 shares held by Walnut Investment Partners, L.P., assuming conversion of our series D convertible preferred stock.

Mr. Gould exercises voting and/or investment powers for the shares held by Walnut Capital Partners, L.P. as a manager of Walnut Capital Management Group, LLC, the general partner of Walnut Capital Partners, L.P. Mr. Gould exercises voting and/or investment powers for the shares held by Walnut Investment Partners, L.P. as a manager of Walnut Investments Holding Company, LLC, the general partner of Walnut Investment Partners, L.P. Although Mr. Gould may be deemed to be the beneficial owner, Mr. Gould disclaims beneficial ownership of the shares owned by the above entities except to the extent of his pecuniary interest therein. The address for Walnut is 312 Walnut Street, Suite 1151, Cincinnati, Ohio 45202.

(5) Represents 2,834,912 shares held by The Barney A. Ebsworth Living Trust dated July 23, 1986, assuming conversion of our series A-1 convertible preferred stock, series A-5 convertible preferred stock, series B-4 convertible preferred stock and series C-2 convertible preferred stock. Mr. Ebsworth exercises voting and/or investment powers for the shares held by The Barney A. Ebsworth Living Trust dated July 23, 1986 as trustee of the Trust.

(6) William Reisler, David Schulte and Terry Matlack share voting and investment power over the shares beneficially owned by KCEP Ventures II, L.P.

(7) Mr. Vest may be deemed to beneficially own the shares beneficially owned by CP4 Principals, L.L.C. through his membership in the managing board of CP4 Principals, L.L.C. Mr. Vest disclaims beneficial ownership of these shares.

(8) Mr. Gould exercises voting and/or investment powers for the shares held by Walnut Capital Partners, L.P. as a manager of Walnut Capital Management Group, LLC, the general partner of Walnut Capital Partners, L.P. Mr. Gould exercises voting and/or investment powers for the shares held by Walnut Investment Partners, L.P. as a manager of Walnut Investments Holding Company, LLC, the general partner of Walnut Investment Partners, L.P. Although Mr. Vest may be deemed to be the beneficial owner, Mr. Gould disclaims beneficial ownership of the shares owned by the above entities except to the extent of his pecuniary interest therein. The address for Mr. Gould is 312 Walnut Street, Suite 1151, Cincinnati, Ohio 45202.

(9) Mr. Reisler exercises voting and/or investment powers for the shares held by KCEP Ventures II, L.P. as Managing Director of KCEP II, L.C., the general partner of KCEP Ventures II, L.P. Although Mr. Reisler may be deemed to be the beneficial owner, Mr. Reisler disclaims beneficial ownership of the shares owned by KCEP Ventures except to the extent of his pecuniary interest therein. The address for KCEP Ventures is 233 West 47th Street, Kansas City, MO 64112.

(10) Includes options to purchase 60,000 shares of our common stock.

(11) Includes options to purchase 100,000 shares of our common stock.

(12) Includes 20,491 restricted shares and options to purchase 188,000 shares of our common stock. Does not include an indirect interest in 14,653 shares of our common stock held by Ms. Klocke through her investment in Clark/ Fox II, L.L.C.

(13) Includes options to purchase 60,000 shares of our common stock. Does not include an indirect interest in 12,136 shares of our common stock held by Ms. Kroll through her investment in Clark/ Fox, L.L.C.

(14) Includes options to purchase 65,000 shares of our common stock.

(15) Does not include 29,306 shares of our common stock held by Mr. Brooks through his investment in Clark/Fox II L.L.C.

(16) Mr. Vent individually owns 261,346 shares of our common stock, assuming conversion of our Series A-5 convertible preferred stock, Series B-4 convertible preferred stock, Series C-3 convertible preferred stock and Series D convertible preferred stock, and 20,491 restricted shares.

(17) These 10 individuals include all directors and executive officers detailed in the “Management” section above. Includes 315,797 restricted shares and options to purchase 895,283 shares of our common stock. See note 2 and notes 5 through 15 above.

(18) Represents:

- 651,846 shares held by Clark/Fox, L.L.C., assuming conversion of our series A-5 convertible preferred stock, series B-4 convertible preferred stock and Series D convertible preferred stock;

- 670,395 shares held by Clark/Fox II, L.L.C., assuming conversion of our series D convertible preferred stock; and

- 130,918 shares held by Clark/Fox III, L.L.C., assuming conversion of our series D convertible preferred stock.

Ms. Clark exercises voting and/or investment powers for the shares held by Clark/Fox, L.L.C., Clark/Fox II, L.L.C. and Clark/Fox III, L.L.C., as the manager of each of the Clark/Fox entities. Although Ms. Clark may be deemed to be the beneficial owner, Ms. Clark disclaims beneficial ownership of the shares owned by the Clark/Fox entities except to the extent of her pecuniary interest therein, which consists of 69,498 of Clark/Fox, L.L.C., 57,372 shares of Clark/Fox II, L.L.C., and 18 shares of Clark/Fox III, L.L.C.

(19) Assuming conversion of our Series A-2 convertible preferred stock, Series A-5 convertible preferred stock, Series B-1 convertible preferred stock, Series B-4 convertible preferred stock and Series D-1 convertible preferred stock.

(20) Christiane Ebsworth Ladd is the daughter of Barney Ebsworth, one of our directors.

For a discussion of material relationships between us and some of the selling stockholders, see “Management” and “Certain Relationships and Related Party Transactions.

DESCRIPTION OF CAPITAL STOCK

The following information describes the material terms of our common stock and preferred stock, as well as options to purchase our common stock, the material terms of our registration rights agreement and the material provisions of our certificate of incorporation and our bylaws, including all material provisions relating to anti-takeover matters, all as will be in effect upon completion of this offering. If you would like to review all of the terms of our common stock, preferred stock, options, registration rights agreement, certificate of incorporation and bylaws, you should refer to our amended and restated certificate of incorporation and bylaws and the other agreements which have been filed with the Securities and Exchange Commission as exhibits to our registration statement, of which this prospectus forms a part.

Upon completion of this offering, we will be authorized to issue up to 65,000,000 shares of capital stock, par value $0.01 per share, to be divided into two classes to be designated, respectively, “common stock” and “preferred stock.” Of such shares authorized, 50,000,000 shares will be designated as common stock, and 15,000,000 shares will be designated as preferred stock.

Common Stock

As of August 10, 2004, there were 18,051,651 shares of common stock outstanding that were held of record by 23 stockholders, assuming conversion of all currently outstanding shares of preferred stock outstanding into 17,316,698 shares of common stock. There will be shares of common stock outstanding, assuming no exercise of outstanding options, after giving effect to the sale of common stock offered in this offering.

The holders of common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. Our stockholders do not have cumulative voting rights in the election of directors. Accordingly, holders of a majority of the shares voting are able to elect all of the directors. Subject to preferences that may be granted to any then outstanding preferred stock, holders of common stock are entitled to receive ratably only those dividends as may be declared by the board of directors out of funds legally available therefor, as well as any distributions to the stockholders. See “Dividend Policy.” In the event of our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all of our assets remaining after we pay our liabilities and distribute the liquidation preference of any then outstanding preferred stock. Holders of our common stock have no preemptive or other subscription or conversion rights. There are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of holders of common stock are subject to the right of holders of shares of any series of preferred stock that may be issued in the future.

Preferred Stock

Upon completion of this offering, our board of directors will have the authority, without further action by the stockholders, to issue up to 15,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of common stock. The issuance of preferred stock could adversely affect the voting power of holders of common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of Build-A-Bear Workshop. Currently we have no plan to issue any shares of preferred stock.

Prior to the completion of this offering, we have outstanding various series of A, B, C and D preferred stock. Each class has various conversion, dividend, redemption, liquidation and voting rights.

Prior to August 10, 2004, the series A-5 and series D preferred stock accrued a dividend. Cumulative unpaid dividends on such preferred stock totaled $7,776,795 at July 3, 2004. Originally, each share of our preferred stock was convertible on demand into our common stock on a one-for-one basis, after giving effect to accrued but unpaid dividends. Effective August 10, 2004, we amended our certificate of incorporation to eliminate the dividend preference on our preferred stock and add the accrued and unpaid dividends as of July 31, 2004 to the conversion base amount used in calculating the amount of common stock into which the preferred shares will be converted to common shares under certain circumstances, such as an initial public offering. Subsequent to this amendment, we paid a special $10.0 million cash dividend to our stockholders, including holders of preferred stock on an as-converted basis, and each share of our preferred stock is currently convertible on demand into common stock as follows:

				Series D Date of Issuance		
	Series A-1, A-2 and A-3	Series A-4 and A-5	Series B and C	September 2001	November 2001	December 2001
Shares of common stock into which each share of preferred stock may be converted	1.303333	1.303334	1.000000	1.200083	1.188825	1.183108

Additionally, dividend preferences or restrictions on all series of preferred stock were removed and all series of preferred stock now participate ratably on an as converted basis with common stock for any declared dividends subsequent to August 10, 2004. This amendment also establishes the redemption price and liquidation preference for the redeemable preferred stock. Currently, each series of preferred stock has the following dividend, redemption and liquidation rights:

	Series A	Series B	Series C	Series D
Number of series of class issued and outstanding	5	4	3	1
Entitled to cumulative dividends	No	No	No	No
Entitled to participate in cash dividends on common stock	Yes	Yes	Yes	Yes
Senior liquidation preference	Second as a group		N/A	First
Junior liquidation preference	N/A	N/A	Yes	N/A
Liquidation preference at July 31, 2004	$16,298,168	$9,715,006	$1,813,259	$25,331,706

Holders of the series A-5, B-4 and D preferred stock may force us to redeem their shares for cash or notes on April 3, 2006. The series D preferred stock has redemption preference over the series A-5 and B-4, which rank on a parity with each other for redemption. The redemption price is equal to $7,819,985 for the series A-5 preferred stock, $6,000,006 for the series B-4 preferred stock, and $25,331,706 for the series D preferred stock. Each share of preferred stock converts automatically into common stock in the event of an initial public offering of our common stock with proceeds of at least $25 million and a per share offering price of at least $15.00. Accordingly, all shares of outstanding preferred stock will convert into common stock upon completion of this offering.

The series C preferred stock votes on all matters with the common stock on an as-converted basis. The series A, B and D preferred stock votes together as a class with respect to certain actions but are not otherwise entitled to vote on matters on which our common stockholders are entitled to vote.

Options

As of July 3, 2004, we had outstanding options to purchase a total of 1,047,283 shares of common stock at a weighted average exercise price of $6.52 per share under our 2000 and 2002 Stock Option Plans, and we are authorized to award additional options to purchase a total of 2,073,820 shares under our 2004 Stock Incentive Plan. As a result of the adoption of the 2004 Stock Incentive Plan, no further grants of options will be made under our 2000 Stock Option Plan or our 2002 Stock Incentive Plan. We are also considering the adoption an employee stock purchase plan prior to the completion of this offering, under which we will be authorized to issue additional shares of our common stock. Any shares issued upon exercise of these options will be immediately available for sale in the public market upon our filing, after the offering, of a registration statement relating to the options, subject to the terms of lock-up agreements entered into between certain of our option holders and the underwriters.

Registration Rights

After the closing of this offering, the holders of approximately   shares of our common stock will be entitled to certain rights with respect to the registration of such shares under the Securities Act. In the event that we propose to register any of our securities under the Securities Act, either for our own account or for the account of other stockholders, these holders are entitled to notice of such registration and are entitled to include their common stock in such registration, subject to certain marketing and other limitations. Beginning six months after completion of this offering, the holders of at least 10% of these securities have the right to require us to file a registration statement under the Securities Act in order to register their shares of our common stock. We may, in certain circumstances, defer such registrations and the underwriters have the right, subject to certain limitations, to limit the number of shares included in such registrations. We are not obligated to effect more than two demand registrations following completion of this offering, other than registrations on Form S-3. We will bear all costs, other than underwriting discounts and commissions, related to the demand registrations of these shares.

Registration of shares of our common stock upon the exercise of registration rights would result in the covered shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration of those shares.

Anti-Takeover Provisions of Delaware Law and Charter Provisions

The material provisions of Delaware law and our amended and restated certificate of incorporation and bylaws which may have an anti-takeover effect and delay, deter or prevent a tender offer, proxy contest or other takeover attempt that stockholders might consider to be in their best interests, including such an attempt that might result in payment of a premium over the market price for their shares of our common stock, are summarized in the following paragraphs.

Interested stockholder transactions. We are subject to Section 203 of the General Corporation Law of the State of Delaware, which, subject to certain exceptions specified therein, prohibits a Delaware corporation from engaging in any "business combination" with any "interested stockholder" for a period of three years after the date that such stockholder became an interested stockholder, unless:

- before such date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested holder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction began, excluding certain shares; or
- on or after such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of the stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines "business combination" to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits by or through the corporation.

Except as otherwise specified in Section 203 of the Delaware General Corporation Law, an interested stockholder is generally defined to include:

- any person that owns or did own, 15% or more of the outstanding voting stock of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately before the date of determination; and
- the affiliates and associates of any such person.

Under certain circumstances, Section 203 of the Delaware General Corporation Law makes it more difficult for a person who would be an interested stockholder to effect various business combinations with a corporation for a three-year period. We have not elected to be exempt from the restrictions imposed under Section 203 of the Delaware General Corporation Law. However, Ms. Clark, Catterton Partners, Walnut Capital and the Ebsworth trust and their affiliates and associates are excluded from the definition of "interested stockholder" pursuant to the terms of Section 203 of the Delaware General Corporation Law. The provisions of Section 203 of the Delaware General Corporation Law may encourage persons interested in acquiring us to negotiate in advance with the board, since the stockholder approval requirement would be avoided if a majority of the directors then in office approves either the business combination or the transaction which results in any such person becoming an interested stockholder. Such provisions also may have the effect of preventing changes in our management. It is possible that such provisions could make it more difficult to accomplish transactions that our stockholders may otherwise deem to be in their best interests.

Cumulative Voting. Our amended and restated certificate of incorporation expressly denies stockholders the right to cumulative voting in the election of directors.

Classified Board of Directors. Our board of directors is divided into three classes of directors serving staggered three-year terms. As a result, approximately one-third of the board of directors are elected each year, which has the effect of requiring at least two annual stockholder meetings, instead of one, to replace a majority of the members of the board. These provisions, when coupled with the provision of our amended and restated certificate of incorporation authorizing only the board of directors to fill vacant directorships or increase the size of the board of directors, may deter a stockholder from removing incumbent directors and simultaneously gaining control of the board of directors by filling the vacancies created by such removal with its own nominees. The certificate of incorporation also provides that directors may be removed by stockholders only for cause. Since the board of directors has the power to retain and discharge our officers, these provisions could also make it more difficult for existing stockholders or another party to effect a change in management.

Stockholder Action; Special Meeting of Stockholders. Our amended and restated certificate of incorporation eliminates the ability of stockholders to act by written consent, provided that holders of preferred stock may vote by written consent to the extent expressly provided in any certificate of designation authorizing issuance of a particular series of preferred stock. It also provides that special meetings of our stockholders may be called only by the chairman of our board of directors, our chief executive officer, our president or a majority of our directors.

Advance Notice Requirements for Stockholder Proposals and Directors Nominations. Our amended and restated bylaws provides that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide timely notice in writing. To be timely, a stockholder’s notice must be delivered to or mailed and received at our principal executive offices not more than 120 days or less than 90 days prior to the anniversary date of the immediately preceding annual meeting of stockholders or between December , 2004 and January , 2005 in the case of the 2005 annual meeting. However, in the event that no annual meeting was held in the previous year or the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the stockholder in order to be timely must be received not later than the close of business on the 10th day following the date on which notice of the date of the annual meeting was mailed to stockholders or made public, whichever first occurs. Our amended and restated bylaws also specify requirements as to the form and content of a stockholder’s notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

Authorized But Unissued Shares. Our authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of Build-A-Bear by means of a proxy contest, tender offer, merger or otherwise.

Amendments; Supermajority Vote Requirements. The Delaware General Corporation Law provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation’s certificate of incorporation or bylaws, unless either a corporation’s certificate of incorporation or bylaws require a greater percentage. Our amended and restated certificate of incorporation requires the affirmative vote of more than 80% of our capital stock in connection with the amendment of certain provisions, including those relating to (1) the classified board of directors and related director matters, (2) the ability of stockholders to act by written consent or call special meetings, (3) limitations of liability of directors, (4) indemnification of our directors, officers, employees and agents and (5) the amendment of our amended and restated bylaws.

Stockholder Rights Plan. We are considering the adoption of a stockholder rights plan. Such a plan would allow for the issuance of a dividend to stockholders of rights to acquire our shares or, under certain circumstances, an acquiring corporation, at less than their fair market value. These rights would have certain anti-takeover effects by potentially causing substantial dilution to a person or group that attempts to acquire us.

Listing

We intend to apply for the listing of our common stock on the New York Stock Exchange under the symbol “BBW.”

Transfer Agent and Registrar

The transfer agent and registrar for our common stock will be Mellon Investor Services LLC. Its address is Overpeck Centre, 85 Challenger Road, Ridgefield Park, New Jersey 07660.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, we will have shares of common stock outstanding based on shares outstanding as of , 2004. Of these shares, the shares sold in this offering will be freely transferable without restriction under the Securities Act, unless they are held by our "affiliates" as that term is used under the Securities Act and the regulations promulgated thereunder.

Of these shares, the remaining shares were sold by us in reliance on exemptions from the registration requirements of the Securities Act, are restricted securities within the meaning of Rule 144 under the Securities Act and become eligible for sale in the public market as follows:

- beginning 90 days after the effective date, shares will become eligible for sale subject to the provisions of Rules 144 and 701; and

- beginning 180 days after the date of this prospectus, additional shares will become eligible for sale, subject to the provisions of Rule 144, Rule 144(k) or Rule 701, upon the expiration of agreements not to sell such shares entered into between the underwriters and such stockholders.

After the offering, the holders of shares of our common stock will be entitled to rights with respect to the registration of their shares under the Securities Act. Registration of these shares under the Securities Act would result in these shares becoming freely tradeable without restriction under the Securities Act, except for shares purchased by affiliates, immediately upon the effectiveness of this registration. For more information on these registration rights, see "Description of Capital Stock — Registration Rights."

Subject to certain exceptions, beginning 180 days after the date of this prospectus, additional shares subject to vested options as of the date of completion of this offering will be available for sale subject to compliance with Rule 701 and upon the expiration of agreements not to sell such shares entered into between the underwriters and such stockholders. Any shares subject to lock-up agreements may be released at any time without notice by the underwriters.

In general, under Rule 144 as currently in effect, a person, or persons whose shares are aggregated, including an affiliate, who has beneficially owned restricted shares for at least one year is entitled to sell, within any three-month period commencing 90 days after the date of completion of this offering, a number of shares that does not exceed the greater of 1% of the then outstanding shares of common stock, approximately shares immediately after this offering, or the average weekly trading volume in the common stock during the four calendar weeks preceding such sale, subject to the filing of a Form 144 with respect to such sale and certain other limitations and restrictions. In addition, a person who is not deemed to have been an affiliate of our company at any time during the 90 days preceding a sale and who has beneficially owned the shares proposed to be sold for at least two years, would be entitled to sell such shares under Rule 144(k) without regard to the requirements described above.

Any of our employees, officers, directors or consultants who purchased his or her shares before the date of completion of this offering or who holds vested options as of that date pursuant to a written compensatory plan or contract is entitled to rely on the resale provisions of Rule 701, which permits non-affiliates to sell their Rule 701 shares without having to comply with the public-information, holding-period, volume-limitation or notice provisions of Rule 144 and permits affiliates to sell their Rule 701 shares without having to comply with Rule 144's holding-period restrictions, in each case commencing 90 days after the date of completion of this offering. However, we and certain officers, directors and other stockholders have agreed not to sell or otherwise dispose of any shares of our common stock for the 180-day period after the date of this prospectus, subject to extension in certain circumstances without the prior written consent of the underwriters. See "Underwriting."

We intend to file a registration statement on Form S-8 under the Securities Act to register shares of common stock reserved for issuance under our 2000 Stock Option Plan, our 2002 Stock Incentive Plan and our 2004 Stock Incentive Plan, thus permitting the resale of such shares by non-affiliates in the public market without restriction under the Securities Act. Such registration statements will become effective immediately upon filing.

Before this offering, there has been no public market for our common stock, and any sale of substantial amounts in the open market may adversely affect the market price of our common stock offered hereby.

UNDERWRITING

Credit Suisse First Boston LLC and Citigroup Global Markets Inc. are acting as joint book-running managers for this offering. Under the terms and subject to the conditions contained in an underwriting agreement dated , we and the selling stockholders have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston LLC and Citigroup Global Markets Inc. are acting as representatives, the following respective numbers of shares of common stock:

Underwriter	Number of Shares
Credit Suisse First Boston LLC	
Citigroup Global Markets Inc.	
J.P. Morgan Securities Inc.	
A.G. Edwards & Sons, Inc.	
Thomas Weisel Partners LLC	
Total	

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

Certain selling stockholders have granted to the underwriters a 30-day option to purchase up to additional shares from the selling stockholders at the initial public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of $ per share. The underwriters and selling group members may allow a discount of $ per share on sales to other broker/ dealers. After the initial public offering the representatives may change the public offering price and concession and discount to broker/ dealers.

The following table summarizes the compensation and estimated expenses we will pay:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting Discounts and Commissions paid by us	$	$	$	$
Expenses payable by us	$	$	$	$
Underwriting Discounts and Commissions paid by selling stockholders	$	$	$	$
Expenses payable by the selling stockholders	$	$	$	$

The representatives have informed us and the selling stockholders that they do not expect sales to accounts over which the underwriters have discretionary authority to exceed 5% of the shares of common stock being offered. The underwriters will not confirm sales to any accounts over which they exercise discretionary authority without first receiving a written consent from those accounts.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of the representatives for a period of 180 days after the date of this prospectus, except issuances pursuant to the exercise of employee stock options outstanding on the date hereof.

Our officers and directors and the selling stockholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose, unless required by law, the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives for a period of 180 days after the date of this prospectus. Factors that the representatives will consider before consenting to a transaction prohibited by the lock-up agreements are emergency and hardship. Notwithstanding the foregoing, our officers, directors and selling stockholders may pledge shares of our common stock in connection with a bona fide loan transaction in which the pledge acknowledges in writing to be bound by the foregoing obligations and which pledge does not permit the pledgee to offer, sell contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock, enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the common stock. However, in the event that either (1) during the last 17 days of the “lock-up” period, we release earnings results or material news or a material event relating to us occurs, or (2) prior to the expiration of the “lock-up” period, we announce that we will release earnings during the 16-day period beginning on the last day of the lock-up period, in either case, the expiration of the “lock-up” period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings reports or the occurrence of the material news or events, as applicable, unless the representatives waive, in writing, such an extension.

At our request, the underwriters have reserved up to 5% of the shares of common stock for sale at the initial public offering price to selected parties who are not our directors, officers or employees through a directed share program. The number of shares of common stock available for sale to the general public will be reduced by the number of directed shares purchased by participants in the program. Any directed shares not purchased will be offered by the underwriters to the general public on the same basis as all other shares of common stock offered.

We and the selling stockholders have agreed to indemnify the underwriters against liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in that respect.

We intend to apply to list the shares of common stock on the New York Stock Exchange under the symbol “BBW.”

In connection with the listing of the common stock on the , the underwriters will undertake to sell round lots of 100 shares or more to a minimum of beneficial owners.

In the future, the underwriters may provide investment banking services to us.

Prior to this offering, there has been no public market for the common stock. The initial public offering price will be determined by negotiations among us, the selling stockholders and the representatives. Among the factors to be considered in determining the initial public offering price will be the future prospects of our company and our industry in general, sales, earnings and certain other financial and operating information of our company in recent periods, and the price-earnings ratios, comparable sales, market prices of our securities and certain financial and operating information of companies engaged in activities similar to those of our company. The estimated initial public offering price range set forth on the cover page of this preliminary prospectus is subject to change as a result of market conditions and other factors.

In connection with the offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty bids and passive market making in accordance with Regulation M under the Exchange Act.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over- allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

- In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the   or otherwise and, if commenced, may be discontinued at any time.

A prospectus in electronic format will be made available on the websites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectuses electronically. The representatives may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the shares of our common stock in Canada is being made only on a private placement basis exempt from the requirement that we and the selling stockholders prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of the shares of our common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the shares of our common stock.

Representations of Purchasers

By purchasing shares of our common stock in Canada and accepting a purchase confirmation a purchaser is representing to us, the selling stockholders and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws;
- where required by law, that the purchaser is purchasing as principal and not as agent; and
- the purchaser has reviewed the text above under Resale Restrictions.

Rights of Action — Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the shares of our common stock, for rescission against us and the selling stockholders in the event that this prospectus contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the shares of our common stock. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the shares of our common stock. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us or the selling stockholders. In no case will the amount recoverable in any action exceed the price at which the shares of our common stock were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we and the selling stockholders, will have no liability. In the case of an action for damages, we and the selling stockholders, will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the shares of our common stock as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein and the selling stockholders may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of share of our common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and about the eligibility of the shares of our common stock for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

Bryan Cave LLP, St. Louis, Missouri has passed on the validity of the securities being offered. Certain partners of Bryan Cave LLP own interests in investment funds that own shares of our preferred stock. Shearman & Sterling LLP, New York, New York, is counsel for the underwriters in connection with the offering.

EXPERTS

The consolidated financial statements of Build-A-Bear Workshop, Inc. as of December 28, 2002 and January 3, 2004, and for each of the years in the three-year period ended January 3, 2004, have been included herein and in the registration statement in reliance upon the report of KPMG, LLP, independent registered public accountants, appearing elsewhere herein, and upon the authorization of said firm as experts in accounting and auditing.

As discussed in Note 2(q) to the consolidated financial statements, the Company adopted *Emerging Issues Task Force Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share.*

CHANGE OF INDEPENDENT PUBLIC ACCOUNTANTS

In June 2002, we dismissed our independent public accountants, Arthur Andersen LLP, and retained KPMG LLP to act as our independent auditors. Arthur Andersen LLP had been our independent public accountants since 2000. In connection with Arthur Andersen LLP’s audit of the consolidated financial statements for the fiscal years 1999, 2000, and 2001 (not included herein), and in connection with the subsequent period up to their dismissal, there were no disagreements with Arthur Andersen LLP on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedures which, if not resolved to Arthur Andersen LLP’s satisfaction, would have caused them to make reference to the subject matter in connection with their report on our consolidated financial statements for such years; and there were no reportable events as set forth in applicable SEC regulations. Arthur Andersen LLP’s report on our consolidated financial statements for the two fiscal years in the period ended December 29, 2001 contained no adverse opinion or disclaimer of opinion and was not modified or qualified as to uncertainty, audit scope or accounting principles. The decision to change auditors was unanimously approved by our board of directors, including all of the members of our audit committee. Prior to the dismissal of Arthur Andersen LLP, we had not consulted with KPMG LLP on any accounting matters. Because Arthur Andersen is no longer operating, we cannot obtain a letter from them regarding their agreement with the above statements.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 (including exhibits, schedules and amendments) under the Securities Act with respect to the shares of common stock to be sold in this offering. This prospectus does not contain all the information set forth in the registration statement. For further information with respect to us and the shares of common stock to be sold in this offering, please refer to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to include those terms of such documents that we believe are material but are not necessarily complete. Whenever a reference is made in this prospectus to any contract or other document of ours, you should not rely solely on the reference and you should refer to the exhibits that are a part of the registration statement for a copy of the contract or document.

You may read and copy all or any portion of the registration statement or any other information that Build-A-Bear Workshop, Inc. files at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings, including the registration statement, are also available to you on the SEC's website at *www.sec.gov*.

As a result of this offering, we will become subject to the information and reporting requirements of the Exchange Act, and, in accordance with those requirements, will file periodic reports, proxy statements and other information with the SEC.

This prospectus includes statistical data that were obtained from industry publications. These industry publications do not guarantee the accuracy and completeness of their information. Although we have not independently verified their data, we believe these industry publications to be generally reliable.

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BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Build-A-Bear Workshop, Inc.:

We have audited the accompanying consolidated balance sheets of Build-A-Bear Workshop, Inc. and subsidiaries (the Company) as of December 28, 2002 and January 3, 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended January 3, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Build-A-Bear Workshop, Inc. and subsidiaries as of December 28, 2002 and January 3, 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended January 3, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(q) to the consolidated financial statements, the Company adopted *Emerging Issues Task Force Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share.*

/s/ KPMG LLP

St. Louis, Missouri

March 5, 2004, except as to
Note 2(q) and Note 13 which
are as of August 10, 2004

BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 28, 2002	January 3, 2004	July 3, 2004	Pro Forma July 3, 2004
			(Unaudited)	(Unaudited) (Note 2)
ASSETS				
Current assets:				
Cash and cash equivalents	$15,865,961	$ 20,600,863	$ 26,314,553	
Inventories	21,570,324	22,572,627	29,948,342	
Receivable for tenant allowances	1,664,545	1,678,297	1,329,840	
Prepaid expenses and other	3,602,841	7,261,528	8,135,484	
Total current assets	42,703,671	52,113,315	65,728,219	
Property and equipment, net	48,071,181	56,358,359	55,535,330	
Goodwill	97,065	97,065	97,065	
Other intangible assets	1,320,306	1,493,171	1,484,333	
Other assets, net	1,501,031	1,902,348	1,988,530	
Total Assets	$93,693,254	$111,964,258	$124,833,477	
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$17,704,138	$ 22,187,350	$ 21,456,887	
Accrued expenses	9,277,406	9,769,052	13,940,326	
Other liabilities	10,909,299	12,432,368	11,675,062	
Total current liabilities	37,890,843	44,388,770	47,072,275	
Deferred revenue	984,375	1,957,190	1,863,681	
Other liabilities	—	876,990	803,356	
Deferred tax liabilities	3,367,014	5,311,862	5,491,224	
Minority interest	4,900	—	—	
Preferred stock, par value $0.01. Authorized 25,000,000, aggregate redeemable and non-redeemable preferred shares; issuable in series:				
Redeemable preferred stock, at redemption price:				
Class A convertible, issued and outstanding 1,061,986 shares (liquidation value of $7,154,986, $7,574,986, and $7,784,986, respectively)	7,093,339	7,532,308	7,751,798	$ —
Class B convertible, issued and outstanding 1,604,680 shares (liquidation value of $6,000,006)	5,938,355	5,957,324	5,966,806	—
Class D convertible, issued and outstanding 3,467,337 shares (liquidation value of $22,990,634, $24,471,187, and $25,211,445, respectively)	22,888,128	24,400,217	25,156,260	—
	35,919,822	37,889,849	38,874,864	—
Stockholders' equity:				
Preferred stock, par value $0.01. Authorized 25,000,000, aggregate redeemable and non-redeemable preferred shares; issuable in series:				
Nonredeemable preferred stock, at par value:				
Class A convertible, issued and outstanding 2,444,966 shares	24,450	24,450	24,450	—
Class B convertible, issued and outstanding 2,039,427 shares	20,394	20,394	20,394	—
Class C convertible, issued and outstanding 4,998,089, 4,998,089, and 4,949,125 shares, respectively	49,981	49,981	49,491	—
Common stock, par value $0.01. Authorized 25,000,000 shares; issued and outstanding 217,519, 217,519, and 419,156 shares, respectively and 17,735,854 (pro forma)	2,175	2,175	4,191	177,358
Additional paid-in capital	9,094,851	9,099,751	9,062,464	47,858,496
Retained earnings	6,334,449	12,342,846	21,567,087	21,567,087
Total stockholders' equity	15,526,300	21,539,597	30,728,077	69,602,941
Total Liabilities and Stockholder's equity	$93,693,254	$111,964,258	$124,833,477	$124,833,477

See accompanying notes to consolidated financial statements.

BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended			Pro forma for the Year Ended	26 weeks ended		Pro Forma for the 26 weeks ended
	December 29, 2001	December 28, 2002	January 3, 2004	January 3, 2004	June 28, 2003	July 3, 2004	July 3, 2004
				(Unaudited) (Note 2)	(Unaudited)		(Unaudited) (Note 2)
Revenues:							
Net retail sales	$106,621,737	$169,122,692	$213,427,099		$92,487,983	$135,419,739	
Franchise fees	—	15,625	244,447		95,337	306,979	
Total revenues	106,621,737	169,138,317	213,671,546		92,583,320	135,726,718	
Costs and expenses:							
Costs of merchandise sold	56,708,261	90,848,059	116,514,872		51,928,954	70,146,290	
Selling, general, and administrative	41,099,646	65,628,680	81,090,890		36,084,130	48,632,406	
Store preopening	3,123,601	3,090,667	3,044,745		1,491,077	579,976	
Impairment charge	1,006,220	—	—		—	—	
Litigation settlement	1,550,000	—	—		—	—	
Interest expense	207,128	77,091	13,119		—	—	
Interest income	(142,822)	(165,176)	(71,462)		(54,533)	(98,501)	
Total costs and expenses	103,552,034	159,479,321	200,592,164		89,449,628	119,260,171	
Income before minority interest and income taxes	3,069,703	9,658,996	13,079,382		3,133,692	16,466,547	
Minority interest	122,500	—	—		—	—	
Income before income taxes	3,192,203	9,658,996	13,079,382		3,133,692	16,466,547	
Income tax expense	1,286,789	3,790,456	5,100,958		1,284,814	6,257,288	
Net income	1,905,414	5,868,540	7,978,424	$ 7,978,424	1,848,878	10,209,259	$10,209,259
Cumulative dividends and accretion of redeemable preferred stock	824,307	1,970,871	1,970,027	—	985,018	985,018	—
Cumulative dividends of nonredeemable preferred stock	455,350	455,350	455,350	—	227,675	227,675	—
Net income available to common and participating preferred stockholders	$ 625,757	$ 3,442,319	$ 5,553,047	$ 7,978,424	$ 636,185	$ 8,996,566	$10,209,259
Net income allocated to common stockholders	$ 19,116	$ 76,837	$ 123,951	$ 7,978,424	$ 14,200	$ 261,064	$10,209,259
Net income allocated to participating preferred stockholders	$ 606,641	$ 3,365,482	$ 5,429,096	$ —	$ 621,985	$ 8,735,502	$ —
Earnings per common share:							
Basic	$ 0.09	$ 0.35	$ 0.57	$ 0.46	$ 0.07	$ 0.92	$ 0.58
Diluted	$ 0.07	$ 0.32	$ 0.45	$ 0.44	$ 0.07	$ 0.57	$ 0.57
Shares used in computing common per share amounts:							
Basic	217,519	217,519	217,519	17,534,217	217,519	284,731	17,601,429
Diluted	9,101,143	12,055,458	17,546,348	18,006,638	9,367,692	17,938,328	18,031,921

See accompanying notes to consolidated financial statements.

BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Nonredeemable preferred stock			Common stock	Additional paid-in capital	Retained earnings	Total
	Class A	Class B	Class C				
Balance, December 30, 2000	$24,450	$20,394	$49,981	$2,175	$9,094,851	$ 1,355,673	$10,547,524
Record cumulative dividends and accretion of redeemable preferred stock	—	—	—	—	—	(824,307)	(824,307)
Net income	—	—	—	—	—	1,905,414	1,905,414
Balance, December 29, 2001	24,450	20,394	49,981	2,175	9,094,851	2,436,780	11,628,631
Record cumulative dividends and accretion of redeemable preferred stock	—	—	—	—	—	(1,970,871)	(1,970,871)
Net income	—	—	—	—	—	5,868,540	5,868,540
Balance, December 28, 2002	24,450	20,394	49,981	2,175	9,094,851	6,334,449	15,526,300
Record cumulative dividends and accretion of redeemable preferred stock	—	—	—	—	—	(1,970,027)	(1,970,027)
Other	—	—	—	—	4,900	—	4,900
Net income	—	—	—	—	—	7,978,424	7,978,424
Balance, January 3, 2004	24,450	20,394	49,981	2,175	9,099,751	12,342,846	21,539,597
Record cumulative dividends and accretion of redeemable preferred stock (unaudited)	—	—	—	—	—	(985,018)	(985,018)
Exercise of stock options in exchange for outstanding shares, net of tax benefit (unaudited)	—	—	(490)	2,016	(37,287)	—	(35,761)
Net income (unaudited)	—	—	—	—	—	10,209,259	10,209,259
Balance, July 3, 2004 (unaudited)	$24,450	$20,394	$49,491	$4,191	$9,062,464	$21,567,087	$30,728,077

See accompanying notes to consolidated financial statements.

BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended			26 weeks ended	
	December 29, 2001	December 28, 2002	January 3, 2004	June 28, 2003	July 3, 2004
				(Unaudited)	
Cash flows from operating activities:					
Net income	$ 1,905,414	$ 5,868,540	$ 7,978,424	$ 1,848,878	$10,209,259
Adjustments to reconcile net income to net cash from operating activities:					
Depreciation and amortization	4,588,324	7,775,448	11,065,217	4,938,601	6,030,048
Deferred taxes	431,699	1,607,400	1,619,419	628,950	(525,676)
Loss on disposal of property and equipment	—	—	339,709	63,305	159,357
Impairment of goodwill	—	—	200,000	—	—
Impairment charge	1,006,220	—	—	—	—
Minority interest	(122,500)	—	—	—	—
Stock-based compensation	—	—	—	—	94,006
Change in current assets and liabilities:					
Inventories	(3,937,679)	(9,037,918)	(1,002,303)	(42,271)	(7,375,715)
Prepaid expenses and other	504,177	(632,402)	(3,333,258)	230,711	(374,354)
Accounts payable	5,201,837	5,748,466	4,483,212	(2,235,948)	(730,463)
Accrued expenses and other liabilities	4,904,851	7,334,048	3,864,520	(6,435,971)	3,322,491
Net cash provided by (used in) operating activities	14,482,343	18,663,582	25,214,940	(1,003,745)	10,808,953
Cash flows from investing activities:					
Purchases of property and equipment	(21,624,454)	(18,718,286)	(18,362,230)	(10,338,465)	(4,437,951)
Purchases of other assets	(1,721,936)	(1,574,631)	(1,917,808)	(638,997)	(657,312)
Purchase of minority interest in subsidiary	—	—	(200,000)	(200,000)	—
Minority interest investment	66,150	61,250	—	—	—
Net cash used in investing activities	(23,280,240)	(20,231,667)	(20,480,038)	(11,177,462)	(5,095,263)
Cash flows from financing activities:					
Payments of long-term debt	(1,768,500)	(106,077)	—	—	—
Net proceeds (costs) from sale of redeemable preferred stock	21,024,016	(15,187)	—	—	—
Net cash provided by (used in) financing activities	19,255,516	(121,264)	—	—	—
Net increase (decrease) in cash and cash equivalents	10,457,619	(1,689,349)	4,734,902	(12,181,207)	5,713,690
Cash and cash equivalents, beginning of year	7,097,691	17,555,310	15,865,961	15,865,961	20,600,863
Cash and cash equivalents, end of year	$ 17,555,310	$ 15,865,961	$ 20,600,863	$ 3,684,754	$26,314,553
Supplemental disclosure of cash flow information:					
Cash paid during the year for:					
Interest	$ 207,128	$ 77,091	$ 13,119	$ —	$ —
Income taxes	$ 1,125,367	$ 2,336,936	$ 2,249,231	$ 2,234,202	$ 5,852,960
Noncash transaction:					
Cumulative dividends and accretion of redeemable	$ 824,307	$ 1,970,871	$ 1,970,027	$ 985,018	$ 985,018

preferred stock					

See accompanying notes to consolidated financial statements.

BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 29, 2001, December 28, 2002 and January 3, 2004
and the twenty-six weeks ended June 28, 2003 (unaudited)
and July 3, 2004 (unaudited)

(1) Description of Business

Build-A-Bear Workshop, Inc. (the Company) is a specialty retailer of plush animals and related products. At January 3, 2004, the Company operated 150 stores (unaudited) located in the United States and Canada and an Internet store. The Company was formed in September 1997 and began operations in October 1997. The Company changed to a Delaware C Corporation on April 3, 2000. The Company previously operated as a Missouri Limited Liability Company (LLC).

During 2001, the Company and a third party formed Build-A-Bear Entertainment, LLC (BABE) for the purpose of promoting the Build-A-Bear brand and characters of the Company through certain entertainment media. Prior to February 2003, the Company owned 51% and was the managing member. On February 10, 2003, the Company purchased for $200,000 the 49% minority interest in BABE, which then became a wholly owned subsidiary.

During 2002, the Company formed Build-A-Bear Workshop Franchise Holdings, Inc. (Holdings) for the purpose of entering into franchise agreements with companies in foreign countries other than Canada. Holdings is a wholly owned subsidiary of the Company. In 2002 and 2003, Holdings signed franchise agreements with third parties to open Build-A-Bear Workshop stores in Japan, the United Kingdom, Korea, Denmark, and France. For each of the franchise agreements, Holdings received a one-time, nonrefundable fee that has been deferred and is being amortized over the life of the respective franchise agreement. Holdings will also receive a percentage of all sales by the franchisees. As of January 3, 2004, one Build-A-Bear Workshop store had been opened in the United Kingdom.

During 2002, the Company formed Build-A-Bear Workshop Canada Ltd. (BAB Canada) for the purpose of operating Build-A-Bear Workshop stores in Canada. BAB Canada is a wholly owned subsidiary of the Company.

During 2003, the Company formed Build-A-Bear Retail Management, Inc. (BABRM) for the purpose of providing purchasing, legal, information technology, accounting, and other general management services for Build-A-Bear Workshop stores. BABRM is a wholly owned subsidiary of the Company.

(2) Summary of Significant Accounting Policies

A summary of the Company’s significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows:

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Build-A-Bear Workshop, Inc. and its wholly owned subsidiaries, Shirts Illustrated, L.L.C., Holdings, BAB Canada, BABE, and BABRM. All significant intercompany accounts are eliminated in consolidation.

Certain reclassifications were made to prior years’ financial statements to be consistent with the fiscal year 2003 presentation.

(b) Pro Forma Presentation (unaudited)

The consolidated balance sheet as of July 3, 2004 reflects the pro forma effect of the mandatory conversion of all outstanding preferred stock into shares of common stock. The consolidated statements of operations for the year ended January 3, 2004 and the 26 weeks ended July 3, 2004 reflect the pro forma effect of the mandatory conversion of all the outstanding preferred stock into shares of common stock upon

BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 29, 2001, December 28, 2002 and January 3, 2004
and the twenty-six weeks ended June 28, 2003 (unaudited)
and July 3, 2004 (unaudited) — (Continued)

the consummation of a qualified initial public offering as if such conversion had occurred as of December 29, 2002 and January 4, 2004 respectively. The conversion ratio assumes the number of shares to be issued upon the conversion of the outstanding preferred stock based upon our Amended and Restated Certificate of Incorporation effective on August 10, 2004, or 17,316,698 shares.

Pro forma basic earnings per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during each period presented plus the maximum number of shares to be issued upon the conversion of the preferred stock. Pro forma diluted earnings per share is computed similarly to pro forma basic earnings per share, except that the denominator is increased for the assumed conversion of dilutive stock options using the treasury stock method.

The following table sets forth the computation of pro forma basic earnings per share and pro forma diluted earnings per share for the fiscal year ended January 3, 2004 and the twenty-six weeks ended July 3, 2004 (unaudited):

	January 3, 2004	July 3, 2004
		(unaudited)
Net income available to common shareholders — pro forma	$ 7,978,424	$10,209,259
Weighted average number of common shares — basic as previously reported	217,519	284,731
Series A-1	1,483,060	1,483,060
Series A-2	182,442	182,442
Series A-3	1,252,846	1,252,846
Series A-4	268,257	268,257
Series A-5	1,384,122	1,384,122
Series B-1	275,352	275,352
Series B-2	1,453,072	1,453,072
Series B-3	311,003	311,003
Series B-4	1,604,680	1,604,680
Series C-1	3,418,306	3,418,306
Series C-2	1,385,507	1,385,507
Series C-3	145,312	145,312
Series D	4,152,739	4,152,739
Pro forma weighted average number of common shares — basic	17,534,217	17,601,429
Effect of dilutive securities:		
Stock options	377,528	327,489
Restricted stock	94,893	103,003
Weighted average number of common shares — dilutive	18,006,638	18,031,921
Pro forma earnings per common share:		
Basic	$ 0.46	$ 0.58
Diluted	$ 0.44	$ 0.57

BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Years ended December 29, 2001, December 28, 2002 and January 3, 2004
and the twenty-six weeks ended June 28, 2003 (unaudited)
and July 3, 2004 (unaudited) — (Continued)**

(c) Fiscal Year

The Company operates on a 52- or 53-week fiscal year ending on the Saturday closest to December 31. Fiscal years 2001, 2002, and 2003 ended on December 29, 2001, December 28, 2002, and January 3, 2004, respectively. Fiscal years 2001 and 2002 included 52 weeks and fiscal year 2003 included 53 weeks. References to years in these financial statements relate to fiscal years or year ends rather than calendar years.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term highly liquid investments with original maturities of three months or less.

The majority of the Company's cash and cash equivalents exceed federal deposit insurance limits. The Company has not experienced any losses in such accounts and management believes that the Company is not exposed to any significant credit risk on cash and cash equivalents.

(e) Inventories

Inventories are stated at the lower of cost or market, with cost determined on an average-cost basis.

(f) Property and Equipment

Property and equipment consist of leasehold improvements, furniture and fixtures, and computer equipment and software are stated at cost. Leasehold improvements are depreciated using the straight-line method over the life of the lease, generally ten years. Furniture and fixtures and computer equipment are depreciated using the straight-line method over the estimated service lives ranging from three to seven years. Computer software is amortized using the straight-line method over a period of three years. New store construction deposits are recorded at the time the deposit is made as construction-in-progress and reclassified to the appropriate property and equipment category at the time of completion of construction, when operations of the store commence.

As part of its lease agreements, the Company receives certain tenant allowances to offset the Company's cost of building out its stores. During the period of construction and prior to the opening of the stores, tenant allowances to be received have been recorded as a receivable for tenant allowances and as a reduction in leasehold improvements.

(g) Other Intangible Assets

Other intangible assets consist primarily of costs related to trademarks and other intellectual property and deferred leasing fees. Trademarks and other intellectual property represent third-party costs that are capitalized and amortized over their estimated lives of three years using the straight-line method.

(h) Other Assets

Deferred leasing fees are initial, direct costs related to the Company's operating leases and are amortized over the useful life of the lease.

BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Years ended December 29, 2001, December 28, 2002 and January 3, 2004
and the twenty-six weeks ended June 28, 2003 (unaudited)
and July 3, 2004 (unaudited) — (Continued)**

(i) Long-lived Assets

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

(j) Accrued Rent

Certain of the Company's operating leases contain predetermined fixed escalations of minimum rentals during the original lease terms. For these leases, the Company recognizes the related rental expense on a straight-line basis over the life of the lease and records the difference between the amounts charged to operations and amounts paid as accrued rent. Certain of the Company's leases contain future contingent increases in rentals, generally increases for the consumer price index. Additional rental expense is recorded in the period in which such contingent increases to the rentals takes place.

(k) Franchises

The Company defers initial, one-time nonrefundable franchise fees and amortizes them over the life of the respective franchise agreements, which extend for periods up to 10 years. Continuing franchise fees are recognized as revenue as the fees are earned. The Company defers direct and incremental costs incurred with third parties when entering into franchise agreements and amortizes them over the life of the respective franchise agreements.

(l) Retail Revenue Recognition

Net retail sales are net of discounts, exclude sales tax, and are recognized at the time of sale.

Revenues from the sale of gift certificates are recognized at the time of redemption. Unredeemed gift certificates are included in accrued expenses on the consolidated balance sheets.

The Company has a frequent shopper program for its U.S. stores whereby customers who purchase $100 of merchandise receive a card for $10 off a future purchase. An estimate, based on historical redemption rates, of the amount of revenue to be deferred related to this program is recorded at the time of each purchase as a reduction of net retail sales. The deferred revenue is included in other current liabilities on the consolidated balance sheets and is recognized as net retail sales at the time the card is presented for redemption. Management evaluates the redemption rate under this program through the use of frequent shopper cards which have an expiration date after which the frequent purchase discount would not have to be honored. Management reviews these redemption rates and assesses the adequacy of the deferred revenue account at the end of each second quarter and each fiscal year. Based on this assessment at the end of fiscal 2003, the deferred revenue account was determined to be overstated and was adjusted downward by $1.1 million with a corresponding increase to net retail sales, an increase in net income of $0.7 million, net of income taxes of $0.4 million, and an increase in basic earnings per share of $0.07 for the year ended January 3, 2004. Additionally, the amount of revenue being deferred beginning in fiscal 2004 was decreased by 0.2% to give effect to the change in redemption experience resulting in an increase in net retail sales of $275,000, an increase in net income of $173,000, net of income taxes of $102,000 and an increase in basic earnings per share of $0.02 for the twenty-six weeks ended July 3, 2004.

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(m) Costs of Merchandise Sold

Costs of merchandise sold include the cost of the merchandise, store occupancy cost, including store depreciation, freight costs from the manufacturer to the store, cost of warehousing and distribution, packaging, and damages and shortages.

(n) Selling, General, and Administrative Expenses

Selling, general, and administrative expenses include store payroll and related benefits, advertising, credit card fees, and store supplies, as well as central office management payroll, related benefits, travel, information systems, accounting, insurance, legal, and public relations. It also includes depreciation and amortization of central office leasehold improvements, furniture, fixtures, and equipment, as well as amortization of trademarks and intellectual property.

(o) Store Preopening Expenses

Store preopening expenses, including store set-up and certain labor and hiring costs, are expensed as incurred.

(p) Advertising

Production costs of commercials and programming are charged to operations in the period during which the production is first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the period the program takes place. Advertising expense was $3,493,000, $6,002,000, and $10,883,000 for the years ended December 29, 2001 December 28, 2002, and January 3, 2004, respectively.

(q) Income Taxes

Income taxes are accounted for using a balance sheet approach known as the asset and liability method. The liability method accounts for deferred income taxes by applying the statutory tax rates in effect at the date of the consolidated balance sheets to differences between the book basis and the tax basis of assets and liabilities.

(r) Earnings Per Share

In July 2004, the Company adopted Emerging Issues Task Force (EITF) No. 03-06, *Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share.* The consensus required the use of the two-class method in the calculation and disclosure of basic earnings per share and provided guidance on the allocation of earnings and losses for purposes of calculating basic earnings per share. Accordingly, all periods presented have been retroactively adjusted to give effect to such guidance.

Certain classes of preferred stock are entitled to participate in cash dividends on common stock. For purposes of calculating basic earnings per share, undistributed earnings are allocated to common and participating preferred shares on a pro rata basis. Basic earnings per share is determined by dividing net income available to common and participating stockholders by the weighted average number of common and participating shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if options to issue common stock or conversion rights of preferred stocks were exercised. In periods in which the inclusion of such instruments is anti-dilutive, the effect of such securities is not given consideration.

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(s) Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees.* Compensation expense for stock options is measured as the excess, if any, of the quoted market price of the Company’s common stock at the date of the grant over the amount an employee must pay to acquire the common stock.

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure, an Amendment of FASB Statement 123*, to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company previously adopted the disclosure-only provisions of SFAS No. 123. For 2001, 2002, and 2003, no compensation cost was recognized at the date of the grant under APB No. 25 for the Company’s stock option plans as options have been issued at fair value. The following table illustrates the effect on net earnings and net earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for the years ended December 29, 2001, December 28, 2002, January 3, 2004, and the twenty-six weeks ended June 28, 2003 (unaudited) and July 3, 2004 (unaudited).

	Fiscal Years Ended			Twenty-Six Weeks Ended	
	December 29, 2001	December 28, 2002	January 3, 2004	June 28, 2003	July 3, 2004
				(Unaudited)	
Net income:					
As reported	$1,905,414	$5,868,540	$7,978,424	$1,848,878	$10,209,259
Add stock-based compensation recorded, net of related tax effect	—	—	—	—	59,219
Deduct stock-based employee compensation expense under fair value-based method, net of related tax effects	(116,388)	(118,187)	(243,345)	(106,265)	(126,137)
Pro forma (unaudited)	$1,789,026	$5,750,353	$7,735,079	$1,742,613	$10,142,341
Basic earnings per common share:					
As reported	$ 0.09	$ 0.35	$ 0.57	$ 0.07	$ 0.92
Pro forma (unaudited)	$ 0.07	$ 0.34	$ 0.54	$ 0.05	$ 0.91
Diluted earnings per common share:					
As reported	$ 0.07	$ 0.32	$ 0.45	$ 0.07	$ 0.57
Pro forma (unaudited)	$ 0.06	$ 0.32	$ 0.44	$ 0.06	$ 0.57

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: (a) dividend yield of 0%; (b) expected volatility of 0%; (c) risk-free interest rate ranging from 2.8% to 6.3%; and (d) an expected life of nine, ten, and nine years for 2001, 2002, and 2003, respectively, and nine years for each of the twenty-six week periods

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ended June 28, 2003 (unaudited) and July 3, 2004 (unaudited), respectively. The weighted average fair value of the options at the grant date was $2.16, $2.87, and $2.70 per share for grants in fiscal 2001, 2002, and 2003, respectively, and $2.70 and $2.43 for the twenty-six weeks ended June 28, 2003 (unaudited) and July 3, 2004 (unaudited), respectively.

(t) Fair Value of Financial Instruments

For purposes of financial reporting, management has determined that the fair value of financial instruments, including cash and cash equivalents, receivable for tenant allowances, accounts payable, and accrued expenses, approximates book value at December 28, 2002 and January 3, 2004.

(u) Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment and intangibles, inventories, and deferred income tax assets and the determination of our deferred revenue under our frequent shopper program.

(v) Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.* This statement establishes standards for how an issuer classifies and measures in its statements of financial position certain financial instruments of both liabilities and equity. SFAS No. 150 requires issuers to classify as liabilities (or assets in some circumstances) three classes of freestanding instruments entered into or modified after May 31, 2003, at the beginning of the first interim period beginning after June 15, 2003 for all existing financial instruments. As of July 3, 2004, the Company did not have financial instruments within the scope of SFAS No. 150.

In March 2004, the Emerging Issues Task Force completed its discussion of and provided consensus guidance on Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No 128*, *Earning per Share*. The consensus interpreted the definition of a “participating security”, required the use of the two-class method in the calculation and disclosure of basic earnings per share, and provided guidance on the allocation of earnings and losses for purposes of calculating basic earnings per share. Certain of our classes of preferred stock are entitled to participate in cash dividends on common stock. Accordingly, this consensus has been applied in the calculation of basic earnings per share for all periods presented.

(w) Interim Financial Data (Unaudited)

The accompanying consolidated balance sheet as of July 3, 2004 and the accompanying consolidated statements of operations, stockholders’ equity and cash flows for the 26 weeks ended July 3, 2004 and June 28, 2003 have been prepared by the Company without an audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation for such periods have been made. Results for interim periods should not be considered as indicative of results for a full year.

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Footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted herein with respect to the interim financial data. The interim information herein should be read in conjunction with the annual financial information presented herein.

(3) Impairment Charge

During 2001, the Company identified three stores that were not meeting operating objectives and determined the stores were impaired and would be closed at the time of the early termination provision of the leases for each of the stores. The Company recorded a provision for impairment totaling $1,006,220 which included $519,119 related to the write down of property and equipment and other assets and $487,101 of accrued expenses to be incurred in the closing of the stores at the exercise of the early termination provision. During 2003, the Company closed one of the stores, one store was closed during the twenty-six weeks ended July 3, 2004, and the remaining store is anticipated to close in early 2005. As of January 3, 2004, accrued expenses includes $447,107 related to these stores. Other cash costs represent certain costs incurred with the execution of the early termination of the leases and the required restoration of the leased space as a result of the early termination. The accrued costs as of July 3, 2004 will be paid at the closing of the remaining store. The following table presents activity related to the provision for impairment discussed above during fiscal years 2001, 2002, and 2003:

	Fixed asset impairments	Other cash costs	Total
Balance at December 30, 2000	$ —	$ —	$ —
Provision	519,119	487,101	1,006,220
Write-off of impaired assets	(519,119)	—	(519,119)
Balance at December 29, 2001	—	487,101	487,101
Activity	—	—	—
Balance at December 28, 2002	—	487,101	487,101
Store closing costs	—	(39,994)	(39,994)
Balance at January 3, 2004	—	447,107	447,107
Store closing costs (unaudited)	—	(191,002)	(191,002)
Balance at July 3, 2004 (unaudited)	$ —	$ 256,105	$ 256,105

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(4) Property and Equipment

Property and equipment consist of the following:

	2002	2003
Leasehold improvements	$38,023,837	$48,308,151
Furniture and fixtures	12,010,189	15,087,759
Computer hardware	7,164,387	9,006,592
Computer software	4,075,994	5,971,151
New store construction deposits	697,948	1,066,376
	61,972,355	79,440,029
Less accumulated depreciation	13,901,174	23,081,670
	$48,071,181	$56,358,359

For 2001, 2002, and 2003, depreciation expense was $3,864,416, $6,886,275, and $9,721,591, respectively. Leasehold improvements are net of total tenant allowances received from lessors of $15,730,431 and $22,299,385 at December 28, 2002 and January 3, 2004, respectively.

(5) Goodwill

The changes in the carrying amount of goodwill for the year ended January 3, 2004 are as follows:

Balance as of December 28, 2002	$ 97,065
Purchase of minority interest in BABE	200,000
Impairment loss	(200,000)
Balance as of January 3, 2004	$ 97,065

Accumulated amortization related to goodwill was $20,987 at December 28, 2002 and January 3, 2004.

On February 10, 2003, the Company purchased the 49% minority interest in BABE for $200,000, which was allocated to goodwill due to the insignificance of the fair value of the identifiable net assets. A goodwill impairment loss of $200,000 was recognized in the BABE investment since the carrying amount of the investment was greater than the fair value (as determined using the expected present value of future cash flows) and the carrying amount of the goodwill exceeded the implied fair value of that goodwill. The goodwill impairment loss is included in selling, general, and administrative expenses in the consolidated statements of operations.

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(6) Other Intangible Assets

Other intangible assets consist of trademarks and other intellectual property. For 2001, 2002, and 2003, amortization expense was $723,908, $889,173, and $1,343,626, respectively. Amortized intangible assets consist of the following:

	2002	2003
Trademarks	$2,819,664	$3,626,630
Intellectual property	378,893	636,654
Total	3,198,557	4,263,284
Less accumulated amortization	1,878,251	2,770,113
Total, net	$1,320,306	$1,493,171

Trademarks and intellectual property are amortized over three years. Amortization expense related to trademarks and intellectual property was $578,689, $721,762, and $873,760 for 2001, 2002, and 2003, respectively. Estimated amortization expense for 2004, 2005, and 2006 is $766,448, $503,084, and $223,639, respectively.

(7) Other Assets

Other assets, net of accumulated amortization, consist of the following:

	2002	2003
Deferred leasing fees	$1,298,403	$1,424,564
Deferred franchise costs	194,116	448,039
Other	8,512	29,745
	$1,501,031	$1,902,348

(8) Accrued Expenses

Accrued expenses consist of the following:

	2002	2003
Accrued wages and related expenses	$3,690,665	$1,853,094
Accrued rent and related expenses	3,545,636	3,774,320
Sales tax payable	1,846,275	2,842,669
Current income taxes payable	194,830	1,298,969
	$9,277,406	$9,769,052

(9) Other Current Liabilities

Other current liabilities consist of the following:

	2002	2003
Gift certificates and customer deposits	$ 7,962,930	$ 9,345,844
Deferred revenue	2,946,369	3,086,524
	$10,909,299	$12,432,368

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(10) Income Taxes

The components of the provision for income taxes are as follows:

	2001	2002	2003
Current:			
Federal	$ 753,203	$1,531,865	$2,754,747
State	101,887	551,191	626,792
Foreign	—	100,000	100,000
Deferred:			
Federal	333,586	1,487,317	1,332,627
State	98,113	120,083	286,792
Income tax expense	$1,286,789	$3,790,456	$5,100,958

The income tax expense is different from the amount computed by applying the U.S. statutory Federal income tax rates to income before income taxes. The reasons for these differences are as follows:

	2001	2002	2003
Income before income taxes	$3,192,203	$9,658,996	$13,079,382
U.S. statutory Federal income tax rate	34%	34%	34%
Computed income taxes	1,085,349	3,284,059	4,446,990
State income taxes, net of Federal tax benefit	132,000	443,040	602,965
Other	69,440	63,357	51,003
Income tax expense	$1,286,789	$3,790,456	$ 5,100,958
Effective tax rate	40%	39%	39%

Temporary differences that gave rise to deferred income tax assets and liabilities are as follows:

	2002	2003
Deferred income tax assets:		
Accrued rents	$ 663,134	$ 1,031,047
Deferred revenue	1,513,336	1,893,706
Deferred compensation	308,000	308,000
Intangible assets	474,929	697,113
Store impairment	387,395	179,154
Other	132,249	151,405
Total deferred income tax assets	3,479,043	4,260,425
Deferred income tax liabilities:		
Depreciation	(4,608,322)	(7,010,568)
Other	(952)	—
Total deferred income tax liabilities	(4,609,274)	(7,010,568)
Net deferred income tax liability	$(1,130,231)	$(2,750,143)

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Long-term deferred income tax liabilities of $3,367,014 and $5,311,862 are included in deferred tax liabilities as of December 28, 2002 and January 3, 2004, respectively. Current deferred income tax assets of $2,236,783 and $2,561,719 are included in prepaid expenses and other as of December 28, 2002 and January 3, 2004, respectively.

A valuation allowance would be provided on deferred tax assets when it is more likely than not that some portion of the assets will not be realized. The Company has not established a valuation allowance at December 28, 2002 and January 3, 2004.

(11) Long-Term Debt

On May 30, 2003, the Company amended its secured line of credit with a bank maintaining their borrowing capacity at $15,000,000. This line of credit matured on May 31, 2004 and renewed with substantially the same terms and a maturity date of May 31, 2005. Borrowings are secured by essentially all of the assets of the Company. Availability under the agreement is based on the levels of accounts receivable, inventory, and property and equipment. The credit agreement requires the Company to comply with certain financial covenants, including maintaining a minimum tangible net worth and funded debt to Earnings before interest, depreciation and amortization ratio. As of January 3, 2004 and July 3, 2004, the Company was in compliance with the amended and restated loan agreement’s covenants. The outstanding balance at January 3, 2004, December 28, 2002, July 3, 2004 (unaudited), was $0. The interest rate for the line of credit is the prime rate less 0.5%. Subsequent to July 3, 2004 (unaudited), the Company issued a $1.1 million standby line of credit under its agreement.

(12) Commitments and Contingencies

(a) Operating Leases

The Company leases its retail stores, internet store, and corporate offices under agreements which expire at various dates through 2014. Each store lease contains provisions for base rent plus contingent payments based on defined sales. Total office and retail store base rent expense was $6,956,000, $11,770,000, and $16,546,000 and contingent rents were $525,000, $763,000, and $670,000 for 2001, 2002, and 2003, respectively.

Future minimum lease payments at January 3, 2004, were as follows:

	January 3, 2004
2004	$ 17,879,000
2005	18,228,000
2006	18,549,000
2007	18,797,000
2008	18,932,000
Subsequent to 2008	59,018,000
	$151,403,000

Subsequent to January 3, 2004, the Company has continued to expand its number of operating locations resulting in an increase in its commitments to future minimum lease payments. As of July 3, 2004 (unaudited), the Company has outstanding future minimum lease payments of $187,940,000.

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(b) Litigation

The Company was a party to a lawsuit in which a competitor alleged that the Company misappropriated certain trade secrets and other intellectual property. The Company denied those claims and believes that the allegations in the lawsuit were without merit. Nevertheless, in order to avoid the diversion of management time in dealing with this matter, as well as to avoid additional costs associated with the litigation, the Company elected to resolve this matter without further intervention of the court. During 2001, the matter was resolved to the mutual satisfaction of the parties through a confidential settlement agreement. Pursuant to the settlement agreement, the lawsuit was dismissed with prejudice and the parties agreed to mutual releases of their respective claims. The total amount of the settlement was $2,250,000, of which the Company paid $1,550,000 and the Company’s insurance carrier paid the balance of $700,000. The settlement agreement also includes agreements relating to trademarks, store location restrictions, and certain other terms that the Company does not believe are or will be material to the Company’s operations.

In the normal course of business, the Company is subject to certain claims or lawsuits. Management is not aware of any claims or lawsuits that will have a material adverse effect on the consolidated financial position or results of operations of the Company.

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(13) Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Fiscal Years Ended			Twenty-Six Weeks Ended	
	December 29, 2001	December 28, 2002	January 3, 2004	June 28, 2003	July 3, 2004
				(Unaudited)	
Net income	$1,905,414	$5,868,540	$7,978,424	$1,848,878	$10,209,259
Cumulative dividends and accretion of redeemable preferred stock	824,307	1,970,871	1,970,027	985,018	985,018
Cumulative dividends of nonredeemable preferred stock	455,350	455,350	455,350	227,675	227,675
Net income available to common and participating preferred stockholders	625,757	3,442,319	5,553,047	636,185	8,996,566
Dividends and accretion related to dilutive preferred stock:					
Series A-1	—	195,300	195,300	—	97,650
Series A-2	—	34,850	34,850	—	17,425
Series A-3	—	175,000	175,000	—	87,500
Series A-4	—	50,200	50,200	—	25,100
Series A-5	—	—	438,969	—	219,484
Series B-4	18,969	18,969	18,969	9,485	9,485
Series D	—	—	1,512,089	—	756,045
Total dividends and accretion	18,969	474,319	2,425,377	9,485	1,212,689
	$ 644,726	$3,916,638	$7,978,424	$ 645,670	$10,209,255
Net income allocated to common stockholders	$ 19,116	$ 76,837	$ 123,951	$ 14,200	$ 261,064
Net income allocated to participating preferred stockholders	$ 606,641	$3,365,482	$5,429,096	$ 621,985	$ 8,735,502
Weighted average number of common shares outstanding	217,519	217,519	217,519	217,519	284,731
Weighted average number of participating preferred shares outstanding	6,902,954	9,527,412	9,527,412	9,527,412	9,527,412
Weighted average number of common shares outstanding	217,519	217,519	217,519	217,519	284,731
Effect of dilutive securities:					
Stock options	237,580	310,305	377,528	387,198	327,489
Restricted stock	3,848	48,263	94,893	120,779	103,003

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	Fiscal Years Ended			Twenty-Six Weeks Ended	
	December 29, 2001	December 28, 2002	January 3, 2004	June 28, 2003	July 3, 2004
				(Unaudited)	
Convertible preferred shares:					
Series A-1	—	1,320,440	1,400,096	—	1,459,829
Series A-2	—	162,427	171,679	—	179,585
Series A-3	—	1,115,460	1,182,744	—	1,233,219
Series A-4	—	238,848	253,260	—	264,056
Series A-5	—	—	1,306,688	—	1,362,440
Series B-1	275,352	275,352	275,352	275,352	275,352
Series B-2	1,453,072	1,453,072	1,453,072	1,453,072	1,453,072
Series B-3	311,003	311,003	311,003	311,003	311,003
Series B-4	1,604,680	1,604,680	1,604,680	1,604,680	1,604,680
Series C	4,998,089	4,998,089	4,998,089	4,998,089	4,998,089
Series D	—	—	3,899,745	—	4,061,780
Total dilutive convertible preferred shares	8,642,196	11,479,371	16,856,408	8,642,196	17,223,105
Weighted average number of common shares — dilutive	9,101,143	12,055,458	17,546,348	9,367,692	17,938,328
Earnings per share:					
Basic:					
Per common share	$ 0.09	$ 0.35	$ 0.57	$ 0.07	$ 0.92
Per participating preferred share	$ 0.09	$ 0.35	$ 0.57	$ 0.07	$ 0.92
Diluted	$ 0.07	$ 0.32	$ 0.45	$ 0.07	$ 0.57

In calculating diluted earnings per share for the years ended December 29, 2001, December 28, 2002, January 3, 2004, and the for the six months ended June 28, 2003 (unaudited) and July 3, 2004 (unaudited) options, restricted stock, and convertible preferred shares of 7,659,441, 5,093,723, and 237,734, 8,193,869, and 494,468, respectively, were outstanding as of the end of the periods, but were not included in the computation of diluted earnings per share due to their anti-dilutive effect.

(14) Stock Option Plan

In November 1997, the members of Build-A-Bear Workshop L.L.C. (LLC) adopted the Build-A-Bear Workshop L.L.C. Employee Option Plan. This plan authorized the LLC members to issue options to purchase LLC Class A member interests. The vesting, exercise prices, and other terms of the options were determined by the LLC members. During 1998, the LLC members granted options for a total of three units to two employees. At the grant dates, each unit represented 1% ownership in LLC and was subject to adjustments to maintain such interest in the event of future equity transactions.

When LLC reorganized to a corporation on April 3, 2000, the Company adopted the 2000 Stock Option Plan (the Plan). Under the Plan, the Company granted 300,000 vested options to replace the three

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unit options that were granted during 1998. The exercise price for these options is $0.465 per share. Compensation expense of $500,000 and $300,000 for these options was recorded in 1999 and 2000, respectively. In 2003, the Company adopted the Build-A-Bear Workshop, Inc. 2002 Stock Incentive Plan (collectively, the Plans).

Under the Plans, as amended, up to 2,200,000 shares of common stock were reserved and may be granted to employees and nonemployees of the Company. To date, no options have been granted to nonemployees. The Plan allows for the grant of incentive stock options, nonqualified stock options, and restricted stock (see note 15b). Options granted under the Plan expire no later than 10 years from the date of the grant. The exercise price of each incentive stock option shall not be less than 100% of the fair value of the stock subject to the option on the date the option is granted. The exercise price of the nonqualified options shall be determined from time to time by the compensation committee of the board of directors (the Committee). The vesting provision of individual options is at the discretion of the Committee.

A summary of the balances and activity for the Plans follow:

	Number of Shares	Range of Exercise Price	Weighted Average Price Per Share
Outstanding, December 29, 2001	804,815	$0.47-6.10	$3.45
Exercisable, December 29, 2001	346,000	0.47-6.10	1.21
Granted	55,000	8.42	8.42
Exercised	—	—	—
Forfeited	—	—	—
Outstanding, December 28, 2002	859,815	0.47-8.42	3.77
Exercisable, December 28, 2002	446,963	0.47-6.10	2.12
Granted	271,484	9.10	9.10
Exercised	—	—	—
Forfeited	63,750	8.42-9.10	8.78
Outstanding, January 3, 2004	1,067,549	0.47-9.10	4.82
Exercisable, January 3, 2004	609,139	0.47-8.42	2.91
Granted (unaudited)	302,234	8.78	8.78
Exercised (unaudited)	263,100	0.47-9.10	1.89
Forfeited (unaudited)	59,400	6.10-9.10	7.89
Outstanding, July 3, 2004 (unaudited)	1,047,283	0.47-9.10	6.52
Exercisable, July 3, 2004 (unaudited)	526,211	0.47-9.10	4.50

Shares available for future options and restricted stock grants were 1,024,388 and 816,654 at the end of 2002 and 2003, respectively, and 2,073,820 after giving effect to the Amended and Restated Certificate of Incorporation (see Note 20).

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The following table summarizes information about stock options outstanding at July 3, 2004 (unaudited):

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Exercise Price
$0.47	100,000	5.8	$0.47	100,000	$0.47
4.50	274,815	0.8	4.50	274,815	4.50
6.04-6.10	153,000	6.2	6.08	96,400	6.08
8.42	25,000	8.1	8.42	6,250	8.42
8.78	299,484	9.2	8.78	—	—
9.10	194,984	8.0	9.10	48,746	9.10
0.47-9.10	1,047,283	5.9	6.52	526,211	4.50

(15) Stockholders' Equity

(a) Reorganization and Preferred Stock Sales

Effective April 3, 2000, the Company reorganized from an LLC to a C Corporation. The existing LLC members received a total of 9,482,482 shares of Series A, B, and C convertible nonredeemable preferred stock and 217,519 shares of common stock in exchange for their member units.

On April 5, 2000, the Company issued a total of 2,666,666 shares of Series A and B convertible redeemable preferred stock in exchange for $9,837,876 in cash and $1,934,485 in a promissory note from a related party. The note was subsequently collected in full within 30 days of issuance. The proceeds are net of the costs associated with the preferred stock sales of $227,632.

From September through December 2001, the Company issued a total of 3,467,337 shares of Series D convertible redeemable preferred stock in exchange for $21,024,016 in cash. The cash proceeds are net of the costs associated with the preferred stock sales of $141,911.

(b) Restricted Stock

On April 3, 2000, the Company issued 274,815 shares of restricted common stock to an officer of the Company in exchange for a promissory note of $1,236,667 that bears interest at 6.60% per annum. Both principal and interest are due April 2005. The shares were issued subject to a restriction of continued employment. The promissory note is secured by a pledge of the stock. The Company's recourse against the personal assets of the officer is limited to an amount not to exceed $618,333 provided that the Company shall have recourse against the personal assets of the officer only if the fair market value of the pledged securities is less than 50% of the unpaid principal balance of the note.

On September 19, 2001, the Company issued 40,982 shares of restricted common stock to two officers of the Company in exchange for nonrecourse promissory notes totaling $249,990 that bear interest at 4.82% per annum. Both principal and interest are due September 2006.

The restricted stock issued to the employees in exchange for the promissory notes are treated as outstanding stock options for accounting purposes with no effect on the presentation of stockholders' equity. The shares of restricted stock, accounted for as options, are included in the calculation of diluted earnings per share using the treasury stock method.

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(c) Preferred Stock

As of December 28, 2002 and January 3, 2004, 25,000,000 shares of preferred stock were authorized. Preferred stock consists of various series of Class A, B, C, and D preferred stock. Each class has various dividend, liquidation, and redemption rights as summarized below:

Series of Preferred Stock	Defined Liquidation Rights	Defined Cumulative Dividends	Entitled to Participate in Cash Dividends on Common Stock	Shares Issued and Outstanding as of		Liquidation Preference as of	
				December 28, 2002	January 3, 2004	December 28, 2002	January 3, 2004
A-1	$2.451890	0.171632	No	1,137,898	1,137,898	$ 3,327,075	$ 3,522,375
A-2	3.556556	0.248959	No	139,981	139,981	593,686	628,536
A-3	2.600746	0.182052	No	961,263	961,263	2,981,250	3,156,250
A-4	3.484283	0.243900	No	205,824	205,824	855,200	905,401
A-5	5.649780	0.395485	Yes	1,061,986	1,061,986	7,154,986	7,574,986
B-1	1.808051	0.000000	No	275,352	275,352	497,850	497,850
B-2	1.720493	0.000000	No	1,453,072	1,453,072	2,500,000	2,500,000
B-3	2.305925	0.000000	No	311,003	311,003	717,150	717,150
B-4	3.739067	0.000000	No	1,604,680	1,604,680	6,000,006	6,000,006
C-1	0.105315	0.000000	Yes	3,418,306	3,418,306	359,999	359,999
C-2	0.973290	0.000000	Yes	1,385,507	1,385,507	1,348,500	1,348,500
C-3	0.720934	0.000000	Yes	194,276	194,276	140,060	140,060
D	6.100000	0.427000	Yes	3,467,337	3,467,337	22,990,634	24,471,187
				15,616,485	15,616,485	$49,466,396	$51,822,300

Series D preferred stock has senior liquidation preference over all other series of preferred stock. As a group, series A-1, A-2, A-3, A-4, A-5, B-1, B-2, B-3, and B-4 preferred stock have senior liquidation preference after series D preferred stock. Series C-1, C-2, and C-3 preferred stock have junior liquidation preference. All series of A, B, and D preferred stock also have certain voting rights as a combined class.

As of January 3, 2004, no common or preferred dividends have been declared or paid by the Company. The Series A-5, B-4, and D shareholders may force the Company to redeem those shares for cash or notes on April 3, 2006. Series D shares have redemption preference over Series A-5 and B-4. The redemption price is equal to the price paid for the stock plus all accrued and unpaid dividends. During 2002 and 2003, $1,970,871 and $1,970,027, respectively, was recorded to increase the carrying value of the Series A-5, B-4, and D redeemable preferred stock to its redemption value. This includes cumulative dividends of $1,900,553 and $1,900,553 and accretion of equity issuance costs of $70,318 and $69,474 for 2002 and 2003, respectively, for the redeemable preferred stock. Cumulative dividends in arrears for the nonredeemable preferred stock totaled $1,252,212 and $1,707,562 at December 28, 2002 and January 3, 2004, respectively.

Each share of preferred stock, including shares of preferred stock issuable in exchange for accrued but unpaid dividends, is convertible into common stock on a one-for-one basis at anytime at the option of the holder. Conversion of the preferred stock is automatic based on certain events, such as an initial public offering under certain conditions.

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(16) 401(k) Plan

During 2000, the Company established a defined contribution plan that conforms to IRS provisions for 401(k) plans. The Build-A-Bear Workshop, Inc. Employees Savings Trust covers associates who work 1,000 hours or more in a year and have attained age 21. The Company, at the discretion of its board of directors, can provide for a Company match on the first 6% of employee deferrals. For 2001, 2002, and 2003, the Company provided a 25% match on the first 6% of employee deferrals totaling $72,200, $139,600, and $136,600, respectively. The Company match vests over a five-year period.

(17) Related-Party Purchases and Contracts

The Company bought fixtures for new stores and furniture for the corporate offices from a related party. The total cost of these fixtures and furniture amounted to $3,015,900, $2,839,900, and $2,705,900 in 2001, 2002, and 2003, respectively. The Company leases its corporate office from the same related party. Rent under this lease amounted to $187,000, $212,300, and $215,300 in 2001, 2002, and 2003, respectively. The lease expires in 2008. The total due to this related party as of December 28, 2002 and January 3, 2004 was $22,700 and $82,500, respectively.

The Company paid $930,200, $1,041,400, and $960,300 in 2001, 2002, and 2003, respectively, for construction management services, pursuant to a contract that extended through December 31, 2003, to an entity controlled by a related party. As of January 3, 2004, the Company has a commitment to this same related party for $252,000 relating to a construction management agreement for the period from January 1, 2004 through December 31, 2004. The Company leased one of its retail stores from this same related party. In 2001, 2002, and 2003, the Company paid rent totaling $199,000, $193,400, and $78,400, respectively, under this lease agreement. The total due to this related party as of December 28, 2002 and January 3, 2004 was $35,850 and $6,500, respectively.

The Company paid $257,600, $127,000, and $230,100 in 2001, 2002, and 2003, respectively, for design and other creative services to a stockholder. The total due to this related party as of December 28, 2002 and January 3, 2004 was $0.

(18) Major Vendors

Two vendors accounted for approximately 80%, 74%, and 76% of inventory purchases in 2001, 2002, and 2003, respectively.

(19) Segment Information

The Company’s operations are conducted through three reportable segments consisting of retail operations, the international segment and the licensing and entertainment segment. The retail operations include the operating activities of the stores in the United States and Canada and other retail delivery operations, including the Company’s web-store and non-mall locations such as tourist venues and sports stadiums. The international segment includes the licensing activities of the Company’s franchise agreements with locations outside of the United States. The licensing and entertainment segment has been established to market the naming and branding rights of the Company’s intellectual properties for third party use in the future. These operating segments represent the basis on which the Company’s chief operating decision-maker regularly evaluates the business in assessing performance, determining the allocation of resources and the pursuit of future growth opportunities. The operating segments have discrete sources of revenue, different capital structures and have different cost structures. The reporting segments follow the same accounting policies used for the Company’s consolidated financial statements as described in the summary of significant accounting policies.

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Following is a summary of the financial information for the Company's reporting segments:

	Retail	International	Licensing & Entertainment	Total
Year ended December 29, 2001				
Net sales to external customers	$106,621,737	$ —	$ —	$106,621,737
Net income (loss) before income taxes	3,442,203	—	(250,000)	3,192,203
Total assets	72,778,904	—	75,100	72,854,004
Capital expenditures	21,624,454	—	—	21,624,454
Depreciation and amortization	4,588,324	—	—	4,588,324
Year ended December 28, 2002				
Net sales to external customers	169,122,692	15,625	—	169,138,317
Net income (loss) before income taxes	10,902,408	(1,243,412)	—	9,658,996
Total assets	92,076,402	1,606,852	10,000	93,693,254
Capital expenditures	18,718,286	—	—	18,718,286
Depreciation and amortization	7,774,856	592	—	7,775,448
Year ended January 3, 2004				
Net sales to external customers	213,427,099	244,447	—	213,671,546
Net income before income taxes	14,847,667	(1,768,285)	—	13,079,382
Total assets	108,884,926	2,919,859	159,473	111,964,258
Capital expenditures	18,284,244	77,986	—	18,362,230
Depreciation and amortization	11,016,191	49,026	—	11,065,217
Twenty-six weeks ended June 28, 2003 (unaudited):				
Net sales to external customers	92,487,983	95,337	—	92,583,320
Net income before income taxes	4,255,104	(1,120,437)	(975)	3,133,692
Total assets	85,875,440	1,587,469	9,025	87,471,934
Capital expenditures	10,338,465	—	—	10,338,465
Depreciation and amortization	4,919,690	18,911	—	4,938,601
Twenty-six weeks ended July 3, 2004 (unaudited):				
Net sales to external customers	135,419,760	306,979	—	135,726,739
Net income before income taxes	16,900,181	(433,494)	(140)	16,466,547
Total assets	121,547,580	2,908,064	377,833	124,833,477
Capital expenditures	4,431,607	6,344	—	4,437,951
Depreciation and amortization	5,994,771	35,277	—	6,030,048

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(20) Subsequent Events

As of August 10, 2004, the Certificate of Incorporation was amended primarily with respect to the liquidation and redemption preferences of the Series A and Series D Preferred stock as well as the dividend rights for all series of preferred stock. Previously, Series A and Series D preferred stock accrued a dividend and any accrued and unpaid dividends were added to the original liquidation preference and redemption amounts for these series. Additionally, these series had certain dividend preference rights over other classes of stock.

The amended Certificate of Incorporation effectively sets the liquidation preference and redemption amounts for the Series A and Series D stock to be equal to the original amounts plus the amounts of accrued and unpaid dividends as of July 31, 2004. Additionally, any dividend preference or restrictions on all series of preferred stock were removed and all series of preferred stock participate on an as converted basis ratably with common stock for any declared dividends.

In August 2004, following the amendment of the Certificate of Incorporation, the Company paid a cash dividend of $10.0 million to the common and preferred stockholders.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. *Other Expenses of Issuance and Distribution*

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by Build-A-Bear in connection with the sale of the common stock being registered hereby, other than underwriting commissions and discounts. All amounts are estimates except the SEC registration fee, the NASD filing fee and the New York Stock Exchange listing fee.

Registration fee	$15,837.50
NASD filing fee	13,000.00
NYSE listing fee*	
Blue Sky fees and expenses*	
Printing and engraving expenses*	
Legal fees and expenses*	
Accounting fees and expenses*	
Transfer agent and registrar fees*	
Miscellaneous*	
Total*	**$**

We intend to pay all expenses of registration, issuance and distribution.

* To be supplied by amendment

Item 14. *Indemnification of Directors and Officers*

Our certificate of incorporation provides that our directors shall not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for: (i) any breach of the director's duty of loyalty to us or our stockholders; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) liability for payments of dividends or stock purchases or redemptions in violation of Section 174 of the Delaware General Corporation Law; or (iv) any transaction from which the director derived an improper personal benefit. In addition, our certificate of incorporation provides that we will, to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits us to provide broader indemnification rights than such law permitted us to provide prior to such amendment), indemnify and hold harmless any person who was or is a party, or is threatened to be made a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that such person is or was our director or officer, or is or was serving at our request as a director, officer, employee or agent of another corporation, or as our representative in a partnership, joint venture, trust or other entity, (an "indemnitee") against expenses, liabilities, and losses (including attorneys' fees, judgments, fines, and amounts paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith. We have also entered into separate indemnification agreements with our directors that require us, among other things, to indemnify each of them against certain liabilities that may arise by reason of their status or service other than liabilities unless it is determined that he or she did not act in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

The right to indemnification set forth above includes the right for us to pay the expenses (including attorneys' fees) incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law requires an advancement of expenses incurred by an indemnitee in his capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to us of an undertaking, by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is not further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this section or otherwise. The rights to indemnification and to the advancement of expenses conferred herewith are contract rights and continue as to an indemnitee who has ceased to be a director, officer, employee or agent and inures to the benefit of the indemnitee's heirs, executors, and administrators.

The Delaware General Corporation Law provides that indemnification is permissible only when the director, officer, employee, or agent acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful. The Delaware General Corporation Law also precludes indemnification in respect of any claim, issue, or matter as to which an officer, director, employee, or agent shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine that, despite such adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court deems proper.

The selling stockholders and we have agreed to indemnify the underwriters and their controlling persons, and the underwriters have agreed to indemnify the selling stockholders, us and our controlling persons, against certain liabilities, including liabilities under the Securities Act. Reference is made to the Underwriting Agreement filed as part of the exhibits hereto.

See Item 17 for our undertaking to submit to adjudication the issue of indemnification for violation of the securities laws.

Item 15. ***Recent Sales of Unregistered Securities***

Since September 20, 2001, the registrant has issued and sold the following securities:

1. In September, November and December 2001, the registrant issued and sold to 14 private investors 3,467,337 shares of Series D preferred stock at a price per share of $6.10 for an aggregate consideration of $21,150,756 pursuant to a Stock Purchase Agreement dated as of September 21, 2001. The sales of the securities described in this item 5 were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder.

2. In August 2002, the registrant granted stock options to purchase 55,000 shares of its common stock to members of its management team pursuant to its 2000 Stock Option Plan, as amended. Such options were granted at an exercise price of $8.42. Under the 2000 Stock Option Plan and the option agreements, the options vest ratably in installments of one-fourth per year starting on the first anniversary of the date of the grant. The purchase price of the common stock under each option was equal to at least 100% of the fair market value, or at least 110% of the fair market value for individuals who own more than 10% of the combined voting power of all classes of common stock, as determined by the compensation committee. Options to purchase an aggregate of 30,000 shares have been forfeited. The awards of options described in this item 6 were deemed to be exempt from registration under the Securities Act by virtue of Rule 701 of the Securities Act, in that they were made either pursuant to a written compensatory benefit plan or pursuant to a written contract relating to compensation, as provided by Rule 701 and the aggregate exercise price of options awarded during any consecutive 12-month period was less than the maximum amount allowed pursuant to Rule 701, or in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder.

3. In April 2003, the registrant granted stock options to purchase 263,984 shares of its common stock to members of its management team and other employees, pursuant to its 2002 Stock Option Plan. Such options were granted at an exercise price of $9.10. Under the 2002 Stock Option Plan and the option

agreements, the options vest ratably in installments of one-fourth per year starting on the first anniversary of the date of the grant. The purchase price of the common stock under each option was equal to at least 100% of the fair market value, or at least 110% of the fair market value with respect to any individual who owns more than 10% of the total combined voting power of all classes of registrant's common stock, as determined by the compensation committee. Options to purchase an aggregate of 69,000 shares have been canceled without being exercised. The award of options described in this item 7 were deemed to be exempt from registration under the Securities Act by virtue of Rule 701 of the Securities Act, in that they were made either pursuant to a written compensatory benefit plan or pursuant to a written contract relating to compensation, as provided by Rule 701 and the aggregate exercise price of options awarded during any consecutive 12-month period was less than the maximum amount allowed pursuant to Rule 701, or in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder.

4. In April 2003, the registrant granted nonqualified stock options to purchase 7,500 shares of its common stock to a director pursuant to its 2002 Stock Option Plan. Such options were granted at an exercise price of $9.10. Under the 2002 Stock Option Plan and the option agreement, the options vest ratably in installments of one-fourth per year starting on the first anniversary of the date of the grant. The purchase price of the common stock under each option was determined by registrant's compensation committee. Options to purchase these 7,500 shares have been exercised. The award of options and sale of common stock upon exercise described in this item 8 were deemed to be exempt from registration under the Securities Act by virtue of Rule 701 of the Securities Act, in that they were made either pursuant to a written compensatory benefit plan or pursuant to a written contract relating to compensation, as provided by Rule 701 and the aggregate exercise price of options awarded during any consecutive 12-month period was less than the maximum amount allowed pursuant to Rule 701, or in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder.

5. From March 31, 2004 through April 26, 2004, the registrant granted options to purchase 299,734 shares of its common stock, to members of its management team and other employees, pursuant to its 2002 Stock Option Plan. Such options were granted at an exercise price of $8.78. Options to purchase an aggregate of 2,750 shares have been canceled without being exercised. Under the 2002 Stock Option Plan and the option agreements, the options vest ratably in installments of one-fourth per year starting on the first anniversary of the date of the grant. The purchase price of the common stock under each option was equal to at least 100% of the fair market value, or at least 110% of the fair market value with respect to any individual who owns more than 10% of the total combined voting power of all classes of common stock, as determined by the compensation committee. The awards of options described in this item 9 were deemed to be exempt from registration under the Securities Act by virtue of Rule 701 of the Securities Act, in that they were made either pursuant to a written compensatory benefit plan or pursuant to a written contract relating to compensation, as provided by Rule 701 and the aggregate exercise price of options awarded during any consecutive 12-month period was less than the maximum amount allowed pursuant to Rule 701, or in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder.

6. On May 19, 2004, the registrant granted nonqualified stock options to purchase 2,500 shares of its common stock to a director pursuant to its 2002 Stock Option Plan. Such options were granted at an exercise price of $8.78. Under the 2002 Stock Option Plan and the option agreement, the options vest ratably in installments of one-fourth per year starting on the first anniversary of the date of the grant. The purchase price of the common stock under each option was determined by registrant's compensation committee. These options have been forfeited. The award of options described in this item 10 was deemed to be exempt from registration under the Securities Act by virtue of Rule 701 of the Securities Act, in that it was made either pursuant to a written compensatory benefit plan or pursuant to a written contract relating to compensation, as provided by Rule 701 and the aggregate exercise price of options awarded during any consecutive 12-month period was less than the maximum amount allowed pursuant to Rule 701, in reliance on Section 4(2) of the Securities Act, or Regulation D promulgated thereunder.

The recipients of securities in the transactions described above represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the share certificates issued in such transactions. All recipients had adequate access, through their relationships with the Company, to information about the registrant.

Item 16. ***Exhibits and Financial Statement Schedules***

(a) The following is a list of exhibits filed as a part of this Registration Statement:

Exhibit Number	Description
1.1*	Form of Underwriting Agreement
2.1**	Agreement and Plan of Merger dated April 3, 2000 between Build-A-Bear Workshop, L.L.C. and the Registrant
3.1**	Amended and Restated Certificate of Incorporation of the Registrant dated August 10, 2004
3.2**	Bylaws of the Registrant as currently in effect
3.3	Form of Third Amended and Restated Certificate of Incorporation of the Registrant, to be effective upon the closing of this offering
3.4**	Form of Amended and Restated Bylaws of the Registrant, to be effective upon the closing of this offering
4.1*	Specimen Stock Certificate
4.2**	Stock Purchase Agreement by and among the Registrant, Catterton Partners IV, L.P., Catterton Partners IV Offshore, L.P. and Catterton Partners IV Special Purpose, L.P. and the Purchasers named therein dated as of April 3, 2000
4.3**	Stock Purchase Agreement by and among the Registrant and the other Purchasers named therein dated as of September 21, 2001
4.4**	Amended and Restated Stockholders' Agreement, dated as of September 21, 2001 by and among the Registrant and certain stockholders
4.5**	Amended and Restated Registration Rights Agreement, dated September 21, 2001 by and among Registrant and certain stockholders named therein
5.1*	Opinion of Bryan Cave LLP
10.1**	2000 Stock Option Plan, as amended
10.2**	2002 Stock Incentive Plan, as amended
10.3*	2004 Stock Incentive Plan
10.4	Employment, Confidentiality and Noncompete Agreement dated May 1, 2004 between Maxine Clark and the Registrant
10.5	Employment, Confidentiality and Noncompete Agreement dated April 13, 2004 between Barry Erdos and the Registrant
10.6	Employment, Confidentiality and Noncompete Agreement dated March 7, 2004 between Tina Klocke and the Registrant
10.7	Employment, Confidentiality and Noncompete Agreement dated July 9, 2001 between John Burtelow and the Registrant
10.8	Employment, Confidentiality and Noncompete Agreement dated as of March 7, 2004 between Scott Seay and the Registrant
10.9	Employment, Confidentiality and Noncompete Agreement dated September 10, 2001 between Teresa Kroll and the Registrant
10.10**	Separation Agreement and General Release dated January 31, 2004 by and between Brian C. Vent and Build-A-Bear Workshop, Inc.
10.11**	Form of Indemnification Agreement between the Registrant and its directors and executive officers

Exhibit Number	Description
10.12**	Third Amendment to Loan Documents among the Registrant, Shirts Illustrated, LLC, Build-A-Bear Workshop Franchise Holdings, Inc., Build-A-Bear Entertainment, LLC, Build-A-Bear Retail Management, LLC
10.13**	Second Amended and Restated Loan Agreement dated February, 2002 among U.S. Bank National Association, the Registrant and Shirts Illustrated, LLC
10.14**	First Amended and Restated Revolving Credit Note dated February, 2002 by the Registrant and Shirts Illustrated, LLC in favor of U.S. Bank National Association
10.15**	First Amended and Restated Security Agreement dated February, 2002 among the Registrant, Shirts Illustrated, LLC and U.S. Bank National Association
10.16**	Restricted Stock Purchase Agreement dated April 3, 2000 by and between Maxine Clark and the Registrant
10.17**	Secured Promissory Note of Maxine Clark in favor of the Registrant, dated April 3, 2000
10.18**	Repayment and Stock Pledge Agreement dated April 3, 2000 by and between Maxine Clark and the Registrant
10.19**	Restricted Stock Purchase Agreement dated September 19, 2001 by and between Brian C. Vent and the Registrant
10.20**	Secured Promissory Note of Brian C. Vent in favor of the Registrant, dated September 19, 2001
10.21**	Repayment and Stock Pledge Agreement dated September 19, 2001 by and between Brian C. Vent and the Registrant
10.22**	Restricted Stock Purchase Agreement dated September 19, 2001 by and between Tina Klocke and the Registrant
10.23**	Secured Promissory Note of Tina Klocke in favor of the Registrant, dated September 19, 2001
10.24**	Repayment and Stock Pledge Agreement dated September 19, 2001 by and between Tina Klocke and the Registrant
10.25**	Public Warehouse Agreement dated April 5, 2002 between the Registrant and JS Logistics, Inc., as amended
10.26**	Agreement for Logistics Services dated as of February 24, 2002 by and among the Registrant and HA Logistics, Inc.
10.27†**	Lease Agreement dated as of June 21, 2001 between the Registrant and Walt Disney World Co.
10.28**	Amendment and Restatement of Sublease dated as of June 14, 2000 by and between NewSpace, Inc. and the Registrant
10.29**	Lease dated May 5, 1997 between Smart Stuff, Inc. and Hycel Partners I, L.P.
10.30**	Agreement dated October 16, 2002 between the Registrant and Hycel Properties Co., as amended
10.31**	Construction Management Agreement dated November 10, 2003 by and between the Registrant and Hycel Properties Co.
10.32**	Agreement dated July 19, 2001 between the Registrant and Adrienne Weiss Company
10.33**	Lease between 5th Midtown LLC and the Registrant dated July 21, 2004
10.34	Exclusive Patent License Agreement dated March 12, 2001 by and between Tonyco, Inc. and the Registrant
10.35*	Standard Form Industrial Building Lease dated August 28, 2004 between First Industrial, L.P. and the Registrant
21.1**	List of Subsidiaries of the Registrant
23.1	Consent of KPMG LLP
23.2*	Consent of Bryan Cave LLP (included in the opinion filed as Exhibit 5.1)
24.1**	Powers of Attorney

* To be filed by amendment to this registration statement

** Previously filed.

† Confidential treatment requested as to certain portions filed separately with the Securities and Exchange Commission

(b) *Financial Statement Schedules*

Schedules not listed above have been omitted because they are inapplicable or the requested information is shown in the financial statements of the Registrant or notes thereto.

Item 17. ***Undertakings***

The undersigned registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as a part of this registration statement in reliance upon 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant has duly caused this Pre-Effective Amendment No. 2 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of St. Louis, State of Missouri, on the 20th day of September, 2004.

BUILD-A-BEAR WORKSHOP, INC.

By: /s/ TINA KLOCKE

Name: Tina Klocke
Title: *Chief Financial Bear, Treasurer and Secretary*

Pursuant to the requirements of the Securities Act of 1933, this Pre-Effective Amendment No. 2 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signatures	Title	Date
/s/ MAXINE CLARK* Maxine Clark	Chief Executive Bear and Chairman of the Board (Principal Executive Officer)	September 20, 2004
/s/ BARNEY A. EBSWORTH* Barney A. Ebsworth	Director	September 20, 2004
/s/ JAMES M. GOULD* James M. Gould	Director	September 20, 2004
/s/ WILLIAM REISLER* William Reisler	Director	September 20, 2004
/s/ FRANK M. VEST, JR.* Frank M. Vest, Jr.	Director	September 20, 2004
/s/ TINA KLOCKE Tina Klocke	Chief Financial Bear, Treasurer and Secretary (Principal Financial and Accounting Officer)	September 20, 2004
*By: /s/ TINA KLOCKE Attorney-in-fact		

EXHIBIT 3.3

THIRD AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF BUILD-A-BEAR WORKSHOP, INC.

It is hereby certified that:

1. The present name of the corporation (herein called the "Corporation") is BUILD-A-BEAR WORKSHOP, INC., which is the name under which the Corporation was originally incorporated; and the date of filing the original Certificate of Incorporation of the Corporation with the Secretary of State of Delaware is March 31, 2000. The Corporation filed an Amended and Restated Certificate of Incorporation with the Secretary of State of Delaware on September 21, 2001.

2. The Restated Certificate of Incorporation of the Corporation, as heretofore amended and/or supplemented, is hereby amended in its entirety as set forth in the Third Amended and Restated Certificate of Incorporation of Build-A-Bear Workshop, Inc., as provided for herein.

3. The Third Amended and Restated Certificate of Incorporation has been duly adopted by the stockholders in accordance with the provisions of Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware.

4. The Certificate of Incorporation of the Corporation shall at the effective time of this Third Amended and Restated Certificate of Incorporation, read as set forth on EXHIBIT A hereto.

IN WITNESS WHEREOF, said Build-A-Bear Workshop, Inc., has caused this certificate to be signed by Maxine Clark, its Chief Executive Officer, this ____ day of _____________, 2004.

BUILD-A-BEAR WORKSHOP, INC.

By: ___________________________
Name: Maxine Clark
Title: Chief Executive Officer

EXHIBIT A

THIRD AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF BUILD-A-BEAR WORKSHOP, INC.

ARTICLE FIRST

The name of the Corporation is Build-A-Bear Workshop, Inc.

ARTICLE SECOND

The address of the registered office of the Corporation in the State of Delaware is 1209 Orange St., Wilmington, Delaware 19801. The name and address of its registered agent is The Corporation Trust Company, 1209 Orange St., Wilmington, Delaware, New Castle County, 19801.

ARTICLE THIRD

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE FOURTH

1. AUTHORIZED STOCK. The total number of shares of all classes of stock which the Corporation shall have authority to issue is 65,000,000 shares, consisting of (i) 50,000,000 shares of Common Stock, par value $.01 per share (the "Common Stock") and (ii) 15,000,000 shares of Preferred Stock, par value $.01 per share (the "Preferred Stock").

2. COMMON STOCK. The powers, preferences and rights, and the qualifications, limitations and restrictions, of the Common Stock are as follows:

(a) NO CUMULATIVE VOTING. The holders of shares of Common Stock shall not have cumulative voting rights.

(b) DIVIDENDS; STOCK SPLITS. Subject to the rights of the holders of Preferred Stock, and subject to any other provisions of this Third Amended and Restated Certificate of Incorporation, as it may be amended from time to time, the holders of Common Stock shall be entitled to receive such dividends and other distributions in cash, stock or property of the Corporation when, as and if declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor.

(c) LIQUIDATION, DISSOLUTION, ETC. In the event of any liquidation, dissolution or winding up (either voluntary or involuntary) of the Corporation, the holders of shares of Common Stock shall be entitled to receive the assets and funds of the Corporation available for distribution after payments to creditors and to the holders of any Preferred Stock of the Corporation that may at the time be outstanding, in proportion to the number of shares held by them, respectively. For purposes of this paragraph 2(c), the voluntary sale, conveyance, lease, exchange or transfer (for cash, shares of stock, securities, or other consideration) of all or substantially all of the assets of the Corporation or a consolidation or merger of the Corporation with one or more other corporations or other persons (whether or not the Corporation is the corporation surviving such consolidation or merger) shall not be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary.

(d) MERGER, ETC. In the event of a merger or consolidation of the Corporation with or into another entity (whether or not the Corporation is the surviving entity), the holders of each share of Common Stock shall be entitled to receive the same per share consideration on a per share basis.

(e) VOTING. At every meeting of the stockholders of the Corporation in connection with the election of directors and all other matters submitted to a vote of stockholders, every holder of Common Stock is entitled to one vote in person or by proxy for each share of Common Stock registered in the name of the holder on the transfer books of the Corporation. Except as otherwise required by law, the holders of Common Stock shall vote together as a single class, subject to any right that may be conferred upon holders of Preferred Stock to vote together with holders of Common Stock on all matters submitted to a vote of stockholders of the Corporation.

(f) NO PREEMPTIVE OR SUBSCRIPTION RIGHTS. No holder of shares of Common Stock shall be entitled to preemptive or subscription rights.

3. PREFERRED STOCK.

(a) The Preferred Stock may be issued from time to time in one or more classes or series. The Board of Directors is hereby authorized to provide for the issuance of shares of Preferred Stock in a class or series and, by filing a certificate pursuant to the applicable law of the State of Delaware (a "Preferred Stock Designation"), to establish from time to time the number of shares to be included in each such class or series, and to fix the designation, powers, preferences and rights of the shares of each such class or series and the qualifications, limitations and restrictions thereof. The authority of the Board of Directors with respect to each class or series shall include, but not be limited to, determination of the following:

(i) The designation of the class or series, which may be by distinguishing number, letter or title;

(ii) The number of shares of the series, which number the Board of Directors may thereafter (except where otherwise provided in the Preferred Stock Designation) increase or decrease (but not below the number of shares thereof then outstanding);

(iii) Whether dividends, if any, shall be cumulative or noncumulative and the dividend rate of the class or series;

(iv) The dates on which dividends, if any, shall be payable;

(v) The redemption rights and price or prices, if any, for shares of the class or series;

(vi) The terms and amount of any sinking fund provided for the purchase or redemption of shares of the class or series;

(vii) The amounts payable on, and the preferences, if any, of, shares of the class or series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation;

(viii) Whether the shares of the class or series shall be convertible into shares of any other class or series, or any other security, of the Corporation or any other corporation, and, if so, the specification of such other class or series of such other security, the conversion price or prices or rate or rates, any adjustments thereof, the date or dates at which such shares shall be convertible and all other terms and conditions upon which such conversion may be made;

(ix) Restrictions on the issuance of shares of the same class or series or of any other class or series; and

(x) The voting rights, if any, of the holders of shares of the class or series.

(b) The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority of the voting power of Common Stock, without a vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such holders is required pursuant to the terms of the applicable Preferred Stock Designation.

(c) The Corporation shall be entitled to treat the person in whose name any share of its stock is registered as the owner thereof for all purposes and shall not be bound to recognize any equitable or other claim to, or interest in, such share on the part of any other person, whether or not the Corporation shall have notice thereof, except as expressly provided in this Third Amended and Restated Certificate of Incorporation or by applicable law.

4. POWER TO SELL AND PURCHASE SHARES. Subject to the requirements of applicable law, the Corporation shall have the power to issue and sell all or any part of any shares of any class of stock hereon or hereafter authorized to such persons, and for such consideration, as the Board of Directors shall from time to time, in its discretion, determine, whether or not greater consideration could be received upon the issue or sale of the same number of shares of another class, and as otherwise permitted by law. Subject to the requirements of applicable law, the Corporation shall have the power to purchase any shares of any class of stock herein or hereafter authorized from such persons, and for such consideration, as the Board of Directors shall from time to time, in its discretion, determine, whether or not less consideration could be paid upon the purchase of the same number of shares of another class, and as otherwise permitted by law.

ARTICLE FIFTH

For the management of the business and for the conduct of the affairs of the Corporation, and in further definition, limitation and regulation of the powers of the Corporation, of its directors and of its stockholders or any class thereof, as the case may be, it is further provided that:

1. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. The number of directors which shall constitute the whole Board of Directors shall be fixed by the Board of Directors in the manner provided in the Bylaws.

2. The directors, other than those who may be elected by the holders of any class or series of Preferred Stock issued by the Corporation, shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The initial division of the Board of Directors into classes shall be made by the decision of the Board of Directors. The term of the initial Class I directors shall terminate on the date of the annual meeting next following December 31, 2004; the term of the initial Class II directors shall terminate on the date of the annual meeting next following December 31, 2005; and the term of the initial Class III directors shall terminate on the date of the annual meeting next following December 31, 2006. At each succeeding annual meeting of stockholders beginning in 2005, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director.

3. A director shall hold office until the annual meeting for the year in which his or her term expires or until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

4. Subject to applicable law and the terms of any one or more classes or series of Preferred Stock, any vacancy on the Board of Directors that results from an increase in the number of directors or resulting from the death, resignation, removal from office or any other cause may be filled by a majority of the Board of Directors then in office, although less than a quorum, or by a sole remaining director, and not by the stockholders. Any director of any class elected to fill a vacancy resulting from an increase in the number of directors of such class shall hold office for a term that shall coincide with the remaining term of that class. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his predecessor. Subject to applicable law and the rights, if any, of the holders of shares of Preferred Stock then outstanding, any or all of the directors of the Corporation may be removed from office at any time by the stockholders only for cause and only by the affirmative vote of a majority of the voting power of all of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors. A director

may not be removed by the stockholders at a meeting unless the notice of the meeting states that the purpose, or one of the purposes, of the meeting is the removal of the director. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Third Amended and Restated Certificate of Incorporation applicable thereto, and such directors so elected shall not be divided into classes pursuant to this Article Fifth unless expressly provided otherwise by such terms.

5. The Board of Directors may from time to time adopt, amend or repeal Bylaws; provided, however, that the stockholders may amend or repeal any Bylaw or Bylaws adopted by the Board of Directors, or adopt a new Bylaw or Bylaws, in either case by the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all of the then outstanding shares of the capital stock of the Corporation, voting together as a single class; and, provided, further, however, that in the case of any such stockholder action at a special meeting of stockholders, notice of the proposed adoption, amendment or repeal of the new Bylaw or Bylaws must be contained in the notice of such special meeting.

6. The directors of the Corporation need not be elected by written ballot unless the Bylaws so provide.

7. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the Corporation shall be given in the manner provided in the Bylaws of the Corporation.

8. In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the Delaware General Corporation Law, this Third Amended and Restated Certificate of Incorporation, and any Bylaws adopted by the stockholders; provided, however, that no Bylaws hereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such Bylaws had not been adopted.

ARTICLE SIXTH

1. LIMITATION OF LIABILITY. To the fullest extent permitted by the General Corporation Law of the State of Delaware as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

2. INDEMNIFICATION. The Corporation may indemnify to the fullest extent permitted by law any person made or threatened to be made a party to an action, suit or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that such person or his or her testator or intestate is or was a director, officer, employee or agent of the Corporation, or any predecessor of the Corporation, or serves or served at any other enterprise as a director,

officer, employee or agent at the request of the Corporation or any predecessor to the Corporation.

3. AMENDMENTS. Neither any amendment nor repeal of this Article Sixth, nor the adoption of any provision of the Corporation's Certificate of Incorporation inconsistent with this Article Sixth, shall eliminate or reduce the effect of this Article Sixth, in respect of any matter occurring, or any action or proceeding accruing or arising or that, but for this Article Sixth, would accrue or arise, prior to such amendment, repeal, or adoption of an inconsistent provision.

ARTICLE SEVENTH

Unless otherwise required by law, special meetings of stockholders, for any purpose or purposes may be called by (i) the chairperson of the Board of Directors, if there be one, (ii) the chief executive officer, (iii) the president, or (iv) the Board of Directors. The ability of the stockholders to call a special meeting is hereby specifically denied.

ARTICLE EIGHTH

Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders of the Corporation, and the ability of the stockholders to consent in writing to the taking of any action is hereby specifically denied, provided, however, that the holders of Preferred Stock may act by written consent to the extent expressly provided in the applicable Preferred Stock Designation authorizing the issuance of particular series of Preferred Stock pursuant to Article Fourth of this Third Amended and Restated Certificate of Incorporation.

ARTICLE NINTH

Meetings of stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the Corporation.

ARTICLE TENTH

The Corporation is to have perpetual existence.

ARTICLE ELEVENTH

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Third Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by this Third Amended and Restated Certificate of Incorporation, the Corporation's Bylaws or by statute, and all rights conferred upon the stockholders herein are granted subject to this right; provided, however, that notwithstanding any other provision of this Third Amended and Restated Certificate of Incorporation (and in addition to any other vote that may be required by law), the affirmative vote of the holders of at least eighty percent (80%) of the voting power of all of the then outstanding shares of the capital stock of the Corporation, voting together as a single class, shall be required to amend, alter, change or repeal, or to adopt any provisions as part of this Third Amended and Restated Certificate of Incorporation inconsistent with the purposes and intent of Article Fifth, Article Sixth, Article Seventh, Article Eighth and this Article Eleventh.

EMPLOYMENT, CONFIDENTIALITY AND NONCOMPETE AGREEMENT

This Employment, Confidentiality and Noncompete Agreement ("Agreement") is made and entered into as of the 1st day of May, 2004, by and between Build-A-Bear Workshop, Inc., a Delaware corporation ("Company"), and Maxine Clark ("Employee").

WHEREAS, Company's predecessor, Build-A-Bear Workshop, L.L.C. (the "LLC"), and Employee were party to that certain Employment Agreement dated as of October 1, 1997, which the parties replaced by an Employment, Confidentiality and Noncompete Agreement dated as of April 3, 2000 (the "Existing Agreement") in connection with the merger of the LLC with and into the Company and the Company's assumption of the business of the LLC in connection therewith.

WHEREAS, Employee and Company desire to have Employee continue her employment as the Chief Executive Officer of the Company and to enter into this Agreement with the intent of superceding the Existing Agreement.

WHEREAS, Company has pioneered the retail concept of "make your own" stuff plush toys, including animals and dolls, and is engaged in, among other things, the business of production, marketing, promotion and distribution of plush stuff toys, clothing, accessories and similar items, including without limitation, the ownership, management, franchising, leasing and development of retail stores in which the basic operation is the selling of such items, and the promotion of the related concepts and characters through merchandising and mass media. The Company is headquartered and its principal place of business are located in, and this Agreement is being signed in, St. Louis, Missouri.

WHEREAS, Company conducts business in selected locations throughout the United States and internationally through franchise arrangements.

WHEREAS, Company has expended a great deal of time, money and effort to develop and maintain its proprietary Confidential Information (as defined herein) which is material to Company and which, if misused or disclosed, could be very harmful to Company's business.

WHEREAS, the success of Company depends to a substantial extent upon the protection of its Confidential Information and goodwill by all of its employees.

WHEREAS, Company compensates its employees to, among other things, develop and preserve goodwill with its customers, landlords, suppliers and partners on Company's behalf and business information for Company's ownership and use.

WHEREAS, if Employee were to leave Company, Company, in all fairness, would need certain protections in order to prevent competitors of Company from gaining an unfair competitive advantage over Company or diverting goodwill from Company, or to prevent Employee from misusing or misappropriating the Confidential Information.

NOW, THEREFORE, in consideration of the compensation and other benefits of Employee's employment by Company and the recitals, mutual covenants and agreements hereinafter set forth, Employee and Company agree as follows:

1. Employment Services.

(a) Employee employment as Chief Executive Officer/Chief Executive Bear is hereby continued upon the terms and conditions hereinafter set forth. Employee shall serve as Chief Executive Bear, during the Employment Period, on a full-time basis. Employee has full authority, among other rights and duties, to hire and fire personnel, buy inventory, price products for sale, negotiate leases and in general run Company's operations.

Employee agrees that throughout Employee's employment with Company, Employee will (i) faithfully render such services as may be delegated to Employee by Company, (ii) devote substantially all of Employee's entire business time, good faith, best efforts, ability, skill and attention to Company's business, and (iii) follow and act in accordance with all of the rules, policies and procedures of Company, including but not limited to working hours, sales and promotion policies, and specific Company rules. During the term of her employment, Employee may engage in outside activities, provided those activities do not interfere or conflict with her duties and responsibilities hereunder, provided, Employee will not serve as an officer or on the board of directors of another for-profit entity without the prior written consent of the Corporate Governance Committee of the Company. The Company specifically acknowledges and agrees that Employee may continue to hold the positions set forth on Exhibit 1 hereto. The Company further agrees that it shall not relocate its headquarters outside of the St. Louis metropolitan area during the term of this Agreement or otherwise during the term of this Agreement require Employee to relocate her residence outside of the St. Louis metropolitan area.

(b) "Company" means Build-A-Bear Workshop, Inc. or one of its Subsidiaries, whichever is Employee's employer. The term "Subsidiary" means any corporation, joint venture or other business organization in which Build-A-Bear Workshop, Inc. now or hereafter, directly or indirectly, owns or controls more than fifty percent (50%) interest.

2. Term of Employment. The term of this Agreement shall commence on May 1, 2004 and shall end on the fifth (5th) anniversary hereof, unless sooner terminated as provided in Section 4 hereof (the "Initial Term"). Following the Initial Term, this Agreement shall automatically renew for successive one-year periods (each a "Renewal Period"; collectively, the Initial Term and each Renewal Period, the "Employment Period"), unless sooner terminated as provided in Section 4 hereof.

3. Compensation.

(a) Base Salary. During the Employment Period, Company shall pay Employee as compensation for her services an annual base salary of not less than Three Hundred Seventy-Five Thousand Dollars ($375,000), payable in accordance with Company's usual practices. Employee's annual base salary rate shall be reviewed by Company's Compensation Committee at least annually for increase following each fiscal year so that Employee's salary will be commensurate for similarly situated executives with firms similarly situated to Company; provided, however, that if Employee's individualized performance targets (set for each fiscal year by Employee and Employee's team leader) are achieved, Employee's annual base salary rate shall be subject to annual increase by no less than the average percentage increase given to all other Company executive employees for such fiscal year (the "Average Increase").

(b) Bonus. Should Company exceed its sales, profits and other objectives for any fiscal year, Employee shall be eligible to receive a bonus for such fiscal year as determined by the Compensation Committee of the Board of Directors. For the current fiscal year, Employee will participate in the Chiefs Bonus plan previously approved by the compensation committee of the Board of Directors and shall be eligible for bonus opportunities of up to 250% of her base compensation. In future years, such bonus opportunity will be sufficiently large that if she achieves such bonus, she will be the Company's highest paid employee. Any bonus payable to Employee will be payable in cash, stock or stock options, or combination thereof, all as determined by the Board of Directors or any duly authorized committee thereof, and unless a different payout schedule is applicable for all executive employees of the Company, any such bonus payment will be payable in a single, lump sum payment. In the event of termination of this Agreement because of Employee's death or disability (as defined by Section 4.1(b)), termination by the Company without Cause pursuant to Section 4.1(d) or pursuant to Employee's right to terminate this Agreement for Good Reason under Section 4.1(e), the bonus criteria shall not change and any bonus shall be pro-rated based on the number of full calendar weeks during the applicable fiscal year during which Employee was employed hereunder.

Such bonus, if any, shall be payable after Company's accountants have determined the sales and profits and have issued their audit report with respect thereto for the applicable fiscal year, which determination shall be binding on the parties. Any such bonus shall be paid within one hundred twenty (120) days after the end of each calendar year or thirty (30) days after the issuance of the auditor's report, whichever is later, regardless of Employee's employment status at the time payment is due.

(c) Stock Options. Employee had previously been granted options to purchase 386,049 shares of Company's common stock (the "Common Stock"), pursuant to the terms set forth more particularly in the Option Agreements used in connection with the Build-A-Bear Workshop, Inc. 2000 Stock Option Plan and the Build-A-Bear Workshop, Inc. 2002 Stock Incentive Plan (or any successor plan) (the "Plan"). For 2004, Employee shall be granted options to purchase an additional 36,234 shares pursuant to the Plan and the applicable Option Agreements. It is intended that such additional options will be granted pursuant to the Plan, and will be incentive stock options. Future options to purchase the Common Stock may be granted upon the approval of the Compensation Committee.

(d) Discounts. Employee and her immediate family will be entitled to a 20% discount for all merchandise purchased at Company's stores.

(e) Vacation. Employee shall initially be entitled to paid vacation and paid sick leave on the same basis as may from time to time apply to other Company executive employees generally. Employee shall also be entitled to one (1) additional day per calendar year of paid vacation to be taken in the month of her birthday.

(f) Other. Employee shall be eligible for a car allowance and such other perquisites as may from time to time be awarded to Employee by Company payable at such times and in such amounts as Company, in its sole discretion, may determine. All such compensation shall be subject to customary withholding taxes and other employment taxes as required with respect thereto. Employee shall also qualify for all rights and benefits for which Employee may be eligible under any benefit plans including group life, medical, health, dental and/or disability insurance or other benefits ("Welfare Benefits") which are provided for employees generally at her then current location of employment.

4. Termination of Employment.

4.1 Termination Events. Prior to the expiration of the Employment Period, this Agreement and Employee's employment may be terminated as follows:

(a) Upon Employee's death;

(b) By the Company, upon thirty (30) day's prior written notice to Employee in the event Employee, by reason of permanent physical or mental disability (which shall be determined by a physician selected by Company or its insurers and acceptable to Employee or Employee's legal representative (such agreement as to acceptability not to be withheld unreasonably), shall be unable to perform the essential functions of her position, with or without reasonable accommodation, for three (3) consecutive months; provided, however, Employee shall not be terminated due to permanent physical or mental disability unless or until said disability also entitles Employee to benefits under such disability insurance policy as is provided to Employee by Company.

(c) By the Company with Cause during the Initial Term. For the purposes of this Agreement "Cause" shall mean: (i) Employee's engagement in any conduct which, in Company's reasonable determination, constitutes gross misconduct, or is illegal, unethical or improper provided such conduct brings detrimental notoriety or material harm to Company; (ii) gross negligence or willful misconduct; (iii) conviction of fraud or theft; (iv) a material breach of a material provision of this Agreement by Employee, or (v) failure of Employee to follow a written directive of the Board of Directors within thirty (30) days after receiving such notice, provided that such directive is reasonable in scope or is otherwise within the Board's reasonable business judgment, and is reasonably within Employee's control; provided Employee does not cure said conduct or breach (to the extent curable) within 30 days after the Board of Directors provides Employee with written notice of said conduct or breach.

(d) By the Company with or without Cause following the Initial Term.

(e) By the Employee with or without Good Reason. For purposes of this Agreement, "Good Reason" shall mean: (i) a material breach of a material provision of this Agreement by Company; or (ii) a significant diminishment in the nature or scope of authority, power, function, or duty attached to the position Employee currently maintains without the express written consent of Employee; provided Company does not cure said conduct or breach within thirty (30) days after Employee provides the Board of Directors with written notice of said conduct or breach.

4.2 Impact of Termination.

(a) Survival of Covenants. Upon termination of this Agreement, all rights and obligations of the parties hereunder shall cease, except termination of employment pursuant to Section 4 or otherwise shall not terminate or otherwise affect the rights and obligations of the parties pursuant to Sections 5 through 13 hereof.

(b) Severance. In the event (i) the Company terminates Employee's employment without Cause following the Initial Term pursuant to Section 4.1(d) or (ii) the Employee terminates her employment for Good Reason pursuant to Section 4.1(e), the Company shall continue her base salary for a period of twelve (12) months from termination, such payments to be reduced by the amount of any compensation from a subsequent employer during such period. The Company shall also continue Employee's Welfare Benefits for such period to the extent permitted by the Company's Welfare Benefits Plans. Employee shall also be eligible to receive a bonus with respect to the year of termination as provided in Section 3(b).

(c) Damages. In the event that during the Initial Term the Company terminates Employee's without Cause (other than for death or disability) in violation of the terms of this Agreement, Employee shall be entitled to damages in an amount not less than the sum of (i) the amount of base salary Employee would have been paid during the remainder of the Initial Term pursuant to Section 3(a), and (ii) an amount equal to the bonus Employee would have earned pursuant to Section 3(b) during the Initial Term (but in no event less the average bonus paid to Employee during the 2 fiscal years immediately preceding such termination). This Section 4.2(c) is not intended to be a limit on the amount of damages Employee may recover or otherwise limit or reduce any remedies available to Employee in the event the Company terminates Employee during the Initial Term in violation of the provisions of this Agreement.

5. Confidential Information.

(a) Employee agrees to keep secret and confidential, and not to use or disclose to any third parties, except as directly required for Employee to perform Employee's employment responsibilities for Company, any of Company's proprietary Confidential Information.

(b) Employee acknowledges and confirms that certain data and other information (whether in human or machine readable form) that comes into her possession or knowledge (whether before or after the date of this Agreement) and which was obtained from Company, or obtained by Employee for or on behalf of Company, and which is identified herein (the "Confidential Information") is the secret, confidential property of Company. This Confidential Information includes, but is not limited to:

(1) lists or other identification of customers or prospective customers of Company;

(2) lists or other identification of sources or prospective sources of Company's products or components thereof, its landlords and prospective landlords and its current and prospective alliance, marketing and media partners (and key individuals employed or engaged by such parties);

(3) all compilations of information, correspondence, designs, drawings, files, formulae, lists, machines, maps, methods, models, studies, surveys, scripts, screenplays, artwork, sketches, notes or other writings, plans, leases, records and reports;

(4) financial, sales and marketing data relating to Company or to the industry or other areas pertaining to Company's activities and contemplated activities (including, without limitation, leasing, manufacturing, transportation, distribution and sales costs and non-public pricing information);

(5) equipment, materials, designs, procedures, processes, and techniques used in, or related to, the development, manufacture, assembly, fabrication or other production and quality control of Company's products, stores and services;

(6) Company's relations with its past, current and prospective customers, suppliers, landlords, alliance, marketing and media partners and the nature and type of products or services rendered to, received from or developed with such parties or prospective parties;

(7) Company's relations with its employees (including, without limitation, salaries, job classifications and skill levels); and

(8) any other information designated by Company to be confidential, secret and/or proprietary (including without limitation, information provided by customers, suppliers and alliance partners of Company).

Notwithstanding the foregoing, the term Confidential Information shall not consist of any data or other information which has been made publicly available or otherwise placed in the public domain other than by Employee in violation of this Agreement.

(c) During the Employment Period, Employee will not copy, reproduce or otherwise duplicate, record, abstract, summarize or otherwise use, any papers, records, reports, studies, computer printouts, equipment, tools or other property owned by Company except as expressly permitted by Company in writing or required for the proper performance of her duties on behalf of Company.

6. Post-Termination Restrictions. Employee recognizes that (i) Company has spent substantial money, time and effort over the years in developing and solidifying its relationships with its customers, suppliers, landlords and alliance, marketing and media partners and in developing its Confidential Information; (ii) long-term customer, landlord, supplier and partner relationships often can be difficult to develop and require a significant investment of time, effort and expense; (iii) Company has paid its employees to, among other things, develop and preserve business information, customer, landlord, vendor and partner goodwill, customer, landlord, vendor and partner loyalty and customer, landlord, vendor and partner contacts for and on behalf of Company; and (iv) Company is hereby agreeing to employ and pay Employee based upon Employee's assurances and promises not to divert goodwill of customers, landlords, suppliers or partners of Company, either individually or on a combined basis, or to put herself in a position following Employee's employment with Company in which the confidentiality of Company's Confidential Information might somehow be compromised. Accordingly, Employee agrees that during the Employment Period and for the period of time set forth below following termination of employment (unless the Agreement was terminated by Employee for Good Reason), Employee will not, directly or indirectly (whether as owner, partner, consultant, employee or otherwise):

(a) for three (3) years, engage in, assist or have an interest in, or enter the employment of or act as an agent, advisor or consultant for, any person or entity which is engaged in, or will be engaged in, the development, manufacture, supplying or sale of a product, process, service or development which is competitive with a product, process, service or development on which the Company has expended resources and on which the Employee worked or with respect to which Employee has or had access to Confidential Information while at Company ("Restricted Activity"), and which is located within the United States or within any country where the Company has established a retail presence either directly or through a franchise arrangement; or

(b) for three (3) years, induce or attempt to induce any employee, consultant, partner or advisor of Company to accept employment or an affiliation with any entity engaged in a Restricted Activity;

provided, however, that following termination of her employment, Employee shall be entitled to be an employee of an entity that engages in Restricted Activity so long as, for three (3) years following termination of said employment,: (i) the sale of stuffed plush toys is not a material business of the entity; (ii) Employee has no direct or personal involvement in the sale of stuffed plush toys ; and (iii) neither Employee, her relatives, nor any other entities with which he is affiliated own more than 1% of the entity. As used in this Section 6, "material business" shall mean that either (A) greater than 10% of annual revenues received by such entity were derived from the sale of stuffed plush toys and related products, or (B) the annual revenues received or projected to be received by such entity from the sale of stuffed plush toys and related products exceeded $10 million, or (C) or the entity otherwise annually derives or is projected to derive annual revenues in excess of $5 million from a retail concept that is similar in any material regard to Company.

7. Acknowledgment Regarding Restrictions. Employee recognizes and agrees that the restraints contained in Section 6 (both separately and in total), including the geographic scope thereof in light of the Company's marketing efforts, are reasonable and enforceable in view

of Company's legitimate interests in protecting its Confidential Information and customer goodwill and the limited scope of the restrictions in Section 6.

8. Inventions.

(a) Any and all ideas, inventions, discoveries, patents, patent applications, continuation-in-part patent applications, divisional patent applications, technology, copyrights, derivative works, trademarks, service marks, improvements, trade secrets and the like (collectively, "Inventions"), which are developed, conceived, created, discovered, learned, produced and/or otherwise generated by Employee, whether individually or otherwise, during the time that Employee is employed by Company, whether or not during working hours, that relate to (i) current and anticipated businesses and/or activities of Company, (ii) the current and anticipated research or development of Company, or (iii) any work performed by Employee for Company, shall be the sole and exclusive property of Company, and Company shall own any and all right, title and interest to such Inventions. Employee assigns, and agrees to assign to Company whenever so requested by Company, any and all right, title and interest in and to any such Invention, at Company's expense, and Employee agrees to execute any and all applications, assignments or other instruments which Company deems desirable or necessary to protect such interests, at Company's expense.

(b) Employee acknowledges that as part of her work for the Company he or she may be asked to create, or contribute to the creation of, computer programs, documentation and other copyrightable works. Employee hereby agrees that any and all computer programs, documentation and other copyrightable materials that he has prepared or worked on for the Company, or is asked to prepare or work on by the Company, shall be treated as and shall be a "work made for hire," for the exclusive ownership and benefit of Company according to the copyright laws of the United States, including, but not limited to, Sections 101 and 201 of Title 17 of the U.S. Code ("U.S.C.") as well as according to similar foreign laws. Company shall have the exclusive right to register the copyrights in all such works in its name as the owner and author of such works and shall have the exclusive rights conveyed under 17 U.S.C. Sections 106 and 106A including, but not limited to, the right to make all uses of the works in which attribution or integrity rights may be implicated. Without in any way limiting the foregoing, to the extent the works are not treated as works made for hire under any applicable law, Employee hereby irrevocably assigns, transfers, and conveys to Company and its successors and assigns any and all worldwide right, title, and interest that Employee may now or in the future have in or to the works, including, but not limited to, all ownership, U.S. and foreign copyrights, all treaty, convention, statutory, and common law rights under the law of any U.S. or foreign jurisdiction, the right to sue for past, present, and future infringement, and moral, attribution, and integrity rights. Employee[and its employees and agents] hereby expressly and forever irrevocably waives any and all rights that he or she[or they] may have arising under 17 U.S.C. Sections 106A, rights that may arise under any federal, state, or foreign law that conveys rights that are similar in nature to those conveyed under 17 U.S.C. Sections 106A, and any other type of moral right or droit moral.

9. Company Property. Employee acknowledges that any and all notes, records, sketches, computer diskettes, training materials and other documents relating to Company obtained by or provided to Employee, or otherwise made, produced or compiled during the Employment Period, regardless of the type of medium in which they are preserved, are the sole and exclusive

property of Company and shall be surrendered to Company upon Employee's termination of employment and on demand at any time by Company.

10. Non-Waiver of Rights. Either party's failure to enforce at any time any of the provisions of this Agreement or to require at any time performance by the other party of any of the provisions hereof shall in no way be construed to be a waiver of such provisions or to affect either the validity of this Agreement, or any part hereof, or the right of the non-breaching party thereafter to enforce each and every provision in accordance with the terms of this Agreement.

11. Company's Right to Injunctive Relief. In the event of a breach or threatened breach of any of Employee's duties and obligations under the terms and provisions of Sections 5, 6, or 8 hereof, Company shall be entitled, in addition to any other legal or equitable remedies it may have in connection therewith (including any right to damages that it may suffer), to temporary, preliminary and permanent injunctive relief restraining such breach or threatened breach. Employee hereby expressly acknowledges that the harm which might result to Company's business as a result of any noncompliance by Employee with any of the provisions of Sections 5, 6 or 8 would be largely irreparable. Employee specifically agrees that if there is a question as to the enforceability of any of the provisions of Sections 5, 6 or 8 hereof, Employee will not engage in any conduct inconsistent with or contrary to such Sections until after the question has been resolved by a final judgment of a court of competent jurisdiction.

12. Judicial Enforcement. If any provision of this Agreement is adjudicated to be invalid or unenforceable under applicable law in any jurisdiction, the validity or enforceability of the remaining provisions thereof shall be unaffected as to such jurisdiction and such adjudication shall not affect the validity or enforceability of such provisions in any other jurisdiction. To the extent that any provision of this Agreement is adjudicated to be invalid or unenforceable because it is overbroad, that provision shall not be void but rather shall be limited only to the extent required by applicable law and enforced as so limited. The parties expressly acknowledge and agree that this Section is reasonable in view of the parties' respective interests.

13. Employee Representations. Employee represents that the execution and delivery of the Agreement and Employee's employment with Company do not violate any previous employment agreement or other contractual obligation of Employee and that Employee is not subject to any agreement which restricts the scope of her employment.

14. Amendments. No modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing specifically referring hereto, and signed by the parties hereto. This Agreement supersedes all prior agreements and understandings between Employee and Company to the extent that any such agreements or understandings conflict with the terms of this Agreement.

15. Assignments. This Agreement shall be freely assignable by Company to and shall inure to the benefit of, and be binding upon, Company, its successors and assigns and/or any other entity which shall succeed to the business presently being conducted by Company. Being a contract for personal services, neither this Agreement nor any rights hereunder shall be assigned by Employee.

16. Choice of Forum and Governing Law. In light of Company's substantial contacts with the State of Missouri, the parties' interests in ensuring that disputes regarding the interpretation, validity and enforceability of this Agreement are resolved on a uniform basis, and Company's execution of, and the making of, this Agreement in Missouri, the parties agree that: (i) any litigation involving any noncompliance with or breach of the Agreement, or regarding the interpretation, validity and/or enforceability of the Agreement, shall be filed and conducted in the state or federal courts in St. Louis City or County, Missouri; and (ii) the Agreement shall be interpreted in accordance with and governed by the laws of the State of Missouri, without regard for any conflict of law principles.

17. Life Insurance. At all times during the term of this Agreement, Company shall use its best efforts to keep in full force one or more policies of "key person" life insurance on Employee's life in the aggregate death benefit of two million dollars ($2,000,000), at Company's cost, with the Company as beneficiary. Employee will do all things within her power that are reasonably necessary to keep that insurance in force and will cooperate with the Company and the insurance companies issuing the policies or policies in doing whatever is reasonably necessary to keep them in force. Employee shall have no liability to Company or others if such policies are canceled or not renewed due to causes beyond Employee's control.

18. ARBITRATION. ANY CONTROVERSY OR CLAIM ARISING OUT OF, OR RELATING TO THIS AGREEMENT, THE BREACH THEREOF, OR EMPLOYEE'S EMPLOYMENT BY COMPANY, SHALL, AT COMPANY'S SOLE OPTION, BE SETTLED BY BINDING ARBITRATION IN THE COUNTY OF ST. LOUIS IN ACCORDANCE WITH THE RULES THEN IN FORCE OF THE AMERICAN ARBITRATION ASSOCIATION, AND JUDGMENT UPON THE AWARD RENDERED MAY BE ENTERED AND ENFORCED IN ANY COURT HAVING JURISDICTION THEREOF. THE CONTROVERSIES OR CLAIMS SUBJECT TO ARBITRATION AT COMPANY'S OPTION UNDER THIS AGREEMENT INCLUDE, WITHOUT LIMITATION, THOSE ARISING UNDER TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, 42 U.S.C. SECTION 1981, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, THE AMERICANS WITH DISABILITIES ACT, THE FAMILY AND MEDICAL LEAVE ACT, THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, THE MISSOURI HUMAN RIGHTS ACT, LOCAL LAWS GOVERNING EMPLOYMENT, AND THE STATUTORY AND/OR COMMON LAW OF CONTRACT AND TORT. IN THE EVENT EMPLOYEE COMMENCES ANY ACTION IN COURT WHICH COMPANY HAS THE RIGHT TO SUBMIT TO BINDING ARBITRATION, COMPANY SHALL HAVE SIXTY (60) DAYS FROM THE DATE OF SERVICE OF A SUMMONS AND COMPLAINT UPON COMPANY TO DIRECT IN WRITING THAT ALL OR ANY PART OF THE DISPUTE BE ARBITRATED. ANY REMEDY AVAILABLE IN ANY COURT ACTION SHALL ALSO BE AVAILABLE IN ARBITRATION.

19. Headings. Section headings are provided in this Agreement for convenience only and shall not be deemed to substantively alter the content of such sections.

PLEASE NOTE: BY SIGNING THIS AGREEMENT, EMPLOYEE IS HEREBY CERTIFYING THAT EMPLOYEE (A) HAS RECEIVED A COPY OF THIS AGREEMENT FOR REVIEW AND STUDY BEFORE EXECUTING IT; (B) HAS READ THIS AGREEMENT CAREFULLY BEFORE SIGNING IT; (C) HAS HAD SUFFICIENT OPPORTUNITY BEFORE SIGNING THE AGREEMENT TO ASK ANY QUESTIONS EMPLOYEE HAS ABOUT THE AGREEMENT AND HAS RECEIVED SATISFACTORY

ANSWERS TO ALL SUCH QUESTIONS; AND (D) UNDERSTANDS EMPLOYEE'S RIGHTS AND OBLIGATIONS UNDER THE AGREEMENT.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY COMPANY.

/s/ MAXINE CLARK

Maxine Clark

Address: 12 Greenbriar
St. Louis, Missouri 63124

BUILD-A-BEAR WORKSHOP, INC.

By: /s/ TINA KLOCKE

Tina Klocke, Chief Financial Bear

EXHIBIT 1

Employee may continue to hold the positions as a Director of the following corporations:

The Earthgrains Company
Tandy Brands Accessories
Department 56, Inc.
J.C. Penney Co. Inc.

EXHIBIT 10.5

EMPLOYMENT, CONFIDENTIALITY AND NONCOMPETE AGREEMENT

This Employment, Confidentiality and Noncompete Agreement ("Agreement") is made and entered into the 13th day of April, 2004, by and between Build-A-Bear Workshop, Inc., a Delaware corporation ("Company"), and Barry Erdos ("Employee").

WHEREAS, Company desires to employ and Employee desires to be employed as the President and Chief Operating Officer Bear of Company.

WHEREAS, Company has pioneered the retail concept of "make your own" stuff plush toys, including animals and dolls, and is engaged in, among other things, the business of production, marketing, promotion and distribution of plush stuff toys, clothing, accessories and similar items, including without limitation, the ownership, management, franchising, leasing and development of retail stores in which the basic operation is the selling of such items, and the promotion of the related concepts and characters through merchandising and mass media. The Company is headquartered and its principal place of business are located in, and this Agreement is being signed in, St. Louis, Missouri.

WHEREAS, Company conducts business in selected locations throughout the United States and internationally through franchise arrangements.

WHEREAS, Company has expended a great deal of time, money and effort to develop and maintain its proprietary Confidential Information (as defined herein) which is material to Company and which, if misused or disclosed, could be very harmful to Company's business.

WHEREAS, the success of Company depends to a substantial extent upon the protection of its Confidential Information and goodwill by all of its employees.

WHEREAS, Company compensates its employees to, among other things, develop and preserve goodwill with its customers, landlords, suppliers and partners on Company's behalf and business information for Company's ownership and use.

WHEREAS, if Employee were to leave Company, Company, in all fairness, would need certain protections in order to prevent competitors of Company from gaining an unfair competitive advantage over Company or diverting goodwill from Company, or to prevent Employee from misusing or misappropriating the Confidential Information.

NOW, THEREFORE, in consideration of the compensation and other benefits of Employee's employment by Company and the recitals, mutual covenants and agreements hereinafter set forth, Employee and Company agree as follows:

1. Employment Services.

(a) Employee is hereby employed by Company, and Employee hereby accepts such employment, upon the terms and conditions hereinafter set forth. Employee shall serve

as President and Chief Operating Officer Bear, during the Employment Period, on a full-time basis. Employee shall carry out such duties as are assigned to him by Company's Chief Executive Bear.

(b) Employee agrees that throughout Employee's employment with Company, Employee will (i) faithfully render such services as may be delegated to Employee by Company, (ii) devote substantially all of Employee's entire business time, good faith, best efforts, ability, skill and attention to Company's business, and (iii) follow and act in accordance with all of the rules, policies and procedures of Company, including but not limited to working hours, sales and promotion policies, and specific Company rules. During the term of his employment, Employee may engage in outside activities, provided those activities do not interfere or conflict with his duties and responsibilities hereunder, provided, Employee will not serve as an officer or on the board of directors of another for-profit entity without the prior written consent of the Company.

(c) "Company" means Build-A-Bear Workshop, Inc. or one of its Subsidiaries, whichever is Employee's employer. The term "Subsidiary" means any corporation, joint venture or other business organization in which Build-A-Bear Workshop, Inc. now or hereafter, directly or indirectly, owns or controls more than fifty percent (50%) interest.

2. Term of Employment. The term of this Agreement shall commence on April 26, 2004 and shall end on the third anniversary hereof, unless sooner terminated as provided in Section 4 hereof (the "Initial Term"). Following the Initial Term, this Agreement shall automatically renew for successive one-year periods (each a "Renewal Period"; collectively, the Initial Term and each Renewal Period, the "Employment Period"), unless sooner terminated as provided in Section 4 hereof.

3. Compensation.

(a) Base Salary. During the Employment Period, Company shall pay Employee as compensation for his services an annual base salary of not less than Five Hundred Thousand Dollars ($500,000), payable in accordance with Company's usual practices. Employee's annual base salary rate shall be reviewed by Company's Compensation Committee at least annually for increase following each fiscal year so that Employee's salary will be commensurate for similarly situated executives with firms similarly situated to Company; provided, however, that if Employee's individualized performance targets (set for each fiscal year by Employee and Employee's team leader) are achieved, Employee's annual base salary rate shall be subject to annual increase by no less than the average percentage increase given to all other Company executive employees for such fiscal year (the "Average Increase").

(b) Bonus. Should Company exceed its sales, profits and other objectives for any fiscal year, Employee shall be eligible to receive a bonus for such fiscal year as determined by the Compensation Committee of the Board of Directors. For the current fiscal year, Employee will participate in the Chiefs Bonus plan previously approved by the compensation committee of the Board of Directors, provided in no event shall Employee's bonus for the current fiscal year be less than $250,000. In future years, such bonus opportunity will not be less than fifty percent (50%) of the Employee's annual base pay for such fiscal year. Any bonus payable to Employee will be payable in cash, stock or stock options, or combination thereof, all as determined by the Board of Directors or any duly authorized committee thereof, and unless a different payout schedule is applicable for all executive employees of the Company, any such bonus payment will be payable in a single, lump sum payment. For the current fiscal year, and in the event of termination of this Agreement because of Employee's death or disability (as defined by Section 4.1(b)), termination by the Company without Cause pursuant to Section 4.1(c) or pursuant to Employee's right to terminate this Agreement for Good Reason under Section 4.1(d), the bonus criteria shall not change and any bonus shall be pro-rated based on the number of full calendar weeks during the applicable fiscal year during which Employee was employed hereunder.

Such bonus, if any, shall be payable after Company's accountants have determined the sales and profits and have issued their audit report with respect thereto for the applicable fiscal year, which determination shall be binding on the parties. Any such bonus shall be paid within one hundred twenty (120) days after the end of each calendar year or thirty (30) days after the issuance of the auditor's report, whichever is later, regardless of Employee's employment status at the time payment is due.

(c) Stock Options. As of the date of this Agreement, Employee will be granted options to purchase 100,000 shares of Company's common stock (the "Common Stock") at an exercise price of $8.78, pursuant to the terms set forth more particularly in an Option Agreement used in connection with the Build-A-Bear Workshop, Inc. 2002 Stock Incentive Plan (or any successor plan) (the "Plan"). It is intended that such options will be granted pursuant to the Plan, and will be incentive stock options. The Option Agreement will provide that the subject options will vest in the event of a Change in Control or a Public Offering (as such terms are defined in the Option Agreement). Future options to purchase the Common Stock may be granted upon the recommendation of the Chief Executive Officer, in her discretion, and approval of the Compensation Committee.

(d) Discounts. Employee and his immediate family will be entitled to a 20% discount for all merchandise purchased at Company's stores.

(e) Vacation. Employee shall initially be entitled to fifteen (15) days per calendar year of paid vacation, and paid sick leave on the same basis as may from time to time apply to other Company executive employees generally. Vacations will be scheduled with the approval of Company's Chief Executive Officer, who may block out certain periods of time during which vacations may not be taken, including preceding Valentine's Day, preceding Easter, from November 1 through December 31, during Company inventory, and just prior to store openings. One-third of one year's vacation (or any part of it) may be carried over to the next year; provided that such carry over is used in the first calendar quarter of the next year. Unless otherwise approved by the Chief Executive Bear, all unused vacation shall be forfeited, and no more than two weeks of vacation can be taken at one time. Employee shall also be entitled to one (1) additional day per calendar year of paid vacation to be taken in the month of his birthday.

(f) Relocation. On or before May 1, 2004, Company shall pay to Executive $150,000 in lieu of a relocation allowance. Such amount is all inclusive and will not be "grossed up" for tax purposes.

(g) Other. Employee shall be eligible for such other perquisites as may from time to time be awarded to Employee by Company payable at such times and in such amounts as Company, in its sole discretion, may determine. All such compensation shall be subject to customary withholding taxes and other employment taxes as required with respect thereto. Employee shall also qualify for all rights and benefits for which Employee may be eligible under any benefit plans including group life, medical, health, dental and/or disability insurance or other benefits ("Welfare Benefits") which are provided for employees generally at his then current location of employment.

4. Termination of Employment.

4.1 Termination Events. Prior to the expiration of the Employment Period, this Agreement and Employee's employment may be terminated as follows:

(a) Upon Employee's death;

(b) By the Company, upon thirty (30) day's prior written notice to Employee in the event Employee, by reason of permanent physical or mental disability (which shall be determined by a physician selected by Company or its insurers and acceptable to Employee or Employee's legal representative (such agreement as to acceptability not to be withheld unreasonably), shall be unable to perform the essential functions of his position, with or without reasonable accommodation, for three (3) consecutive months; provided, however, Employee shall not be terminated due to permanent physical or mental disability unless or until said disability also entitles Employee to benefits under such disability insurance policy as is provided to Employee by Company.

(c) By the Company with or without Cause. For the purposes of this Agreement "Cause" shall mean: (i) Employee's engagement in any conduct which, in Company's reasonable determination, constitutes gross misconduct, or is illegal, unethical or improper provided such conduct brings detrimental notoriety or material harm to Company; (ii) gross negligence or willful misconduct; (iii) conviction of fraud or theft; (iv) a material breach of a material provision of this Agreement by Employee, or (v) failure of Employee to follow a written directive of the Chief Executive Bear or the Board of Directors within thirty (30) days after receiving such notice, provided that such directive is reasonable in scope or is otherwise within the Chief Executive Bear's or the Board's reasonable business judgment, and is reasonably within Employee's control; provided Employee does not cure said conduct or breach (to the extent curable) within 30 days after the Chief Executive Bear or the Board of Directors provides Employee with written notice of said conduct or breach.

(d) By the Employee with or without Good Reason. For purposes of this Agreement, "Good Reason" shall mean: (i) a material breach of a material provision of this

Agreement by Company; (ii) a significant diminishment in the nature or scope of authority, power, function, or duty attached to the position Employee currently maintains without the express written consent of Employee (provided, the assignment of one or more functional areas to another executive of the Company in and of itself shall not constitute "Good Reason"); or (iii) relocating Employee to a location more than 100 miles from St. Louis without the express written consent of Employee; provided Company does not cure said conduct or breach within thirty (30) days after Employee provides the Board of Directors with written notice of said conduct or breach.

4.2 Impact of Termination.

(a) Survival of Covenants. Upon termination of this Agreement, all rights and obligations of the parties hereunder shall cease, except termination of employment pursuant to Section 4 or otherwise shall not terminate or otherwise affect the rights and obligations of the parties pursuant to Sections 5 through 13 hereof.

(b) Severance. In the event (i) the Company terminates Employee's employment during the Employment Period without Cause pursuant to Section 4.1(c) or (ii) the Employee terminates his employment for Good Reason pursuant to Section 4.1(d), the Company shall continue his base salary for a period of twelve (12) months from termination (unless such termination occurs within the first twelve (12) months following the date of this Agreement, in which event such base salary shall be continued for twenty-four (24) months), such payments to be reduced by the amount of any compensation from a subsequent employer during such period. The Company shall also continue Employee's Welfare Benefits for such period to the extent permitted by the Company's Welfare Benefits Plans. Employee shall accept these payments in full discharge of all obligations of any kind which Company has to him except obligations, if any, to repurchase any capital stock of Company owned by Employee. Employee shall also be eligible to receive a bonus with respect to the year of termination as provided in Section 3(b).

5. Confidential Information.

(a) Employee agrees to keep secret and confidential, and not to use or disclose to any third parties, except as directly required for Employee to perform Employee's employment responsibilities for Company, any of Company's proprietary Confidential Information.

(b) Employee acknowledges and confirms that certain data and other information (whether in human or machine readable form) that comes into his possession or knowledge (whether before or after the date of this Agreement) and which was obtained from Company, or obtained by Employee for or on behalf of Company, and which is identified herein (the "Confidential Information") is the secret, confidential property of Company. This Confidential Information includes, but is not limited to:

(1) lists or other identification of customers or prospective customers of Company;

(2) lists or other identification of sources or prospective sources of Company's products or components thereof, its landlords and prospective landlords and its current and prospective alliance, marketing and media partners (and key individuals employed or engaged by such parties);

(3) all compilations of information, correspondence, designs, drawings, files, formulae, lists, machines, maps, methods, models, studies, surveys, scripts, screenplays, artwork, sketches, notes or other writings, plans, leases, records and reports;

(4) financial, sales and marketing data relating to Company or to the industry or other areas pertaining to Company's activities and contemplated activities (including, without limitation, leasing, manufacturing, transportation, distribution and sales costs and non-public pricing information);

(5) equipment, materials, designs, procedures, processes, and techniques used in, or related to, the development, manufacture, assembly, fabrication or other production and quality control of Company's products, stores and services;

(6) Company's relations with its past, current and prospective customers, , suppliers, landlords, alliance, marketing and media partners and the nature and type of products or services rendered to, received from or developed with such parties or prospective parties;

(7) Company's relations with its employees (including, without limitation, salaries, job classifications and skill levels); and

(8) any other information designated by Company to be confidential, secret and/or proprietary (including without limitation, information provided by customers, suppliers and alliance partners of Company).

Notwithstanding the foregoing, the term Confidential Information shall not consist of any data or other information which has been made publicly available or otherwise placed in the public domain other than by Employee in violation of this Agreement.

(c) During the Employment Period, Employee will not copy, reproduce or otherwise duplicate, record, abstract, summarize or otherwise use, any papers, records, reports, studies, computer printouts, equipment, tools or other property owned by Company except as expressly permitted by Company in writing or required for the proper performance of his duties on behalf of Company.

6. Post-Termination Restrictions. Employee recognizes that (i) Company has spent substantial money, time and effort over the years in developing and solidifying its relationships with its customers, suppliers, landlords and alliance, marketing and media partners and

in developing its Confidential Information; (ii) long-term customer, landlord, supplier and partner relationships often can be difficult to develop and require a significant investment of time, effort and expense; (iii) Company has paid its employees to, among other things, develop and preserve business information, customer, landlord, vendor and partner goodwill, customer, landlord, vendor and partner loyalty and customer, landlord, vendor and partner contacts for and on behalf of Company; and (iv) Company is hereby agreeing to employ and pay Employee based upon Employee's assurances and promises not to divert goodwill of customers, landlords, suppliers or partners of Company, either individually or on a combined basis, or to put himself in a position following Employee's employment with Company in which the confidentiality of Company's Confidential Information might somehow be compromised. Accordingly, Employee agrees that during the Employment Period and for the period of time set forth below following termination of employment, Employee will not, directly or indirectly (whether as owner, partner, consultant, employee or otherwise):

(a) for three (3) years, engage in, assist or have an interest in, or enter the employment of or act as an agent, advisor or consultant for, any person or entity which is engaged in, or will be engaged in, the development, manufacture, supplying or sale of a product, process, service or development which is competitive with a product, process, service or development on which Employee worked or with respect to which Employee has or had access to Confidential Information while at Company ("Restricted Activity"), and which is located within the United States or within any country where the Company has established a retail presence either directly or through a franchise arrangement; or

(b) for three (3) years, induce or attempt to induce any employee, consultant, partner or advisor of Company to accept employment or an affiliation with any entity engaged in a Restricted Activity;

provided, however, that following termination of his employment, Employee shall be entitled to be an employee of an entity that engages in Restricted Activity so long as, for three (3) years following termination of said employment,: (i) the sale of stuffed plush toys is not a material business of the entity; (ii) Employee has no direct or personal involvement in the sale of stuffed plush toys ; and (iii) neither Employee, his relatives, nor any other entities with which he is affiliated own more than 1% of the entity. As used in this Section 6, "material business" shall mean that either (A) greater than 10% of annual revenues received by such entity were derived from the sale of stuffed plush toys and related products, or (B) the annual revenues received or projected to be received by such entity from the sale of stuffed plush toys and related products exceeded $10 million, or (C) or the entity otherwise annually derives or is projected to derive annual revenues in excess of $5 million from a retail concept that is similar in any material regard to Company.

7. Acknowledgment Regarding Restrictions. Employee recognizes and agrees that the restraints contained in Section 6 (both separately and in total), including the geographic scope thereof in light of the Company's marketing efforts, are reasonable and enforceable in view of Company's legitimate interests in protecting its Confidential Information and customer goodwill and the limited scope of the restrictions in Section 6.

8. Inventions.

(a) Any and all ideas, inventions, discoveries, patents, patent applications, continuation-in-part patent applications, divisional patent applications, technology, copyrights, derivative works, trademarks, service marks, improvements, trade secrets and the like (collectively, "Inventions"), which are developed, conceived, created, discovered, learned, produced and/or otherwise generated by Employee, whether individually or otherwise, during the time that Employee is employed by Company, whether or not during working hours, that relate to (i) current and anticipated businesses and/or activities of Company, (ii) the current and anticipated research or development of Company, or (iii) any work performed by Employee for Company, shall be the sole and exclusive property of Company, and Company shall own any and all right, title and interest to such Inventions. Employee assigns, and agrees to assign to Company whenever so requested by Company, any and all right, title and interest in and to any such Invention, at Company's expense, and Employee agrees to execute any and all applications, assignments or other instruments which Company deems desirable or necessary to protect such interests, at Company's expense.

(b) Employee acknowledges that as part of his work for the Company he or she may be asked to create, or contribute to the creation of, computer programs, documentation and other copyrightable works. Employee hereby agrees that any and all computer programs, documentation and other copyrightable materials that he has prepared or worked on for the Company, or is asked to prepare or work on by the Company, shall be treated as and shall be a "work made for hire," for the exclusive ownership and benefit of Company according to the copyright laws of the United States, including, but not limited to, Sections 101 and 201 of Title 17 of the U.S. Code ("U.S.C.") as well as according to similar foreign laws. Company shall have the exclusive right to register the copyrights in all such works in its name as the owner and author of such works and shall have the exclusive rights conveyed under 17 U.S.C. Sections 106 and 106A including, but not limited to, the right to make all uses of the works in which attribution or integrity rights may be implicated. Without in any way limiting the foregoing, to the extent the works are not treated as works made for hire under any applicable law, Employee hereby irrevocably assigns, transfers, and conveys to Company and its successors and assigns any and all worldwide right, title, and interest that Employee may now or in the future have in or to the works, including, but not limited to, all ownership, U.S. and foreign copyrights, all treaty, convention, statutory, and common law rights under the law of any U.S. or foreign jurisdiction, the right to sue for past, present, and future infringement, and moral, attribution, and integrity rights. Employee[and its employees and agents] hereby expressly and forever irrevocably waives any and all rights that he or she[or they] may have arising under 17 U.S.C. Sections 106A, rights that may arise under any federal, state, or foreign law that conveys rights that are similar in nature to those conveyed under 17 U.S.C. Sections 106A, and any other type of moral right or droit moral.

9. Company Property. Employee acknowledges that any and all notes, records, sketches, computer diskettes, training materials and other documents relating to Company obtained by or provided to Employee, or otherwise made, produced or compiled during the Employment Period, regardless of the type of medium in which they are preserved, are the sole and exclusive property of Company and shall be surrendered to Company upon Employee's termination of employment and on demand at any time by Company.

10. Non-Waiver of Rights. Either party's failure to enforce at any time any of the provisions of this Agreement or to require at any time performance by the other party of any of the provisions hereof shall in no way be construed to be a waiver of such provisions or to affect either the validity of this Agreement, or any part hereof, or the right of the non-breaching party thereafter to enforce each and every provision in accordance with the terms of this Agreement.

11. Company's Right to Injunctive Relief. In the event of a breach or threatened breach of any of Employee's duties and obligations under the terms and provisions of Sections 5, 6, or 8 hereof, Company shall be entitled, in addition to any other legal or equitable remedies it may have in connection therewith (including any right to damages that it may suffer), to temporary, preliminary and permanent injunctive relief restraining such breach or threatened breach. Employee hereby expressly acknowledges that the harm which might result to Company's business as a result of any noncompliance by Employee with any of the provisions of Sections 5, 6 or 8 would be largely irreparable. Employee specifically agrees that if there is a question as to the enforceability of any of the provisions of Sections 5, 6 or 8 hereof, Employee will not engage in any conduct inconsistent with or contrary to such Sections until after the question has been resolved by a final judgment of a court of competent jurisdiction.

12. Judicial Enforcement. If any provision of this Agreement is adjudicated to be invalid or unenforceable under applicable law in any jurisdiction, the validity or enforceability of the remaining provisions thereof shall be unaffected as to such jurisdiction and such adjudication shall not affect the validity or enforceability of such provisions in any other jurisdiction. To the extent that any provision of this Agreement is adjudicated to be invalid or unenforceable because it is overbroad, that provision shall not be void but rather shall be limited only to the extent required by applicable law and enforced as so limited. The parties expressly acknowledge and agree that this Section is reasonable in view of the parties' respective interests.

13. Employee Representations. Employee represents that the execution and delivery of the Agreement and Employee's employment with Company do not violate any previous employment agreement or other contractual obligation of Employee and that Employee is not subject to any agreement which restricts the scope of his employment.

14. Amendments. No modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing specifically referring hereto, and signed by the parties hereto. This Agreement supersedes all prior agreements and understandings between Employee and Company to the extent that any such agreements or understandings conflict with the terms of this Agreement.

15. Assignments. This Agreement shall be freely assignable by Company to and shall inure to the benefit of, and be binding upon, Company, its successors and assigns and/or any other entity which shall succeed to the business presently being conducted by Company. Being a contract for personal services, neither this Agreement nor any rights hereunder shall be assigned by Employee.

16. Choice of Forum and Governing Law. In light of Company's substantial contacts with the State of Missouri, the parties' interests in ensuring that disputes regarding the interpretation, validity and enforceability of this Agreement are resolved on a uniform basis, and Company's execution of, and the making of, this Agreement in Missouri, the parties agree that: (i) any litigation involving any noncompliance with or breach of the Agreement, or regarding the interpretation, validity and/or enforceability of the Agreement, shall be filed and conducted in the state or federal courts in St. Louis City or County, Missouri; and (ii) the Agreement shall be interpreted in accordance with and governed by the laws of the State of Missouri, without regard for any conflict of law principles.

17. Attorney's Fees. Company shall pay any reasonable attorney's fees (not in excess of $10,000) of Kelley Drye & Warren LLP incurred by Employee in connection with the negotiation of this Agreement. Payment of such fees shall be made within 30 days of the date Employee presents Company with an invoice.

18. ARBITRATION. ANY CONTROVERSY OR CLAIM ARISING OUT OF, OR RELATING TO THIS AGREEMENT, THE BREACH THEREOF, OR EMPLOYEE'S EMPLOYMENT BY COMPANY, SHALL, AT COMPANY'S SOLE OPTION, BE SETTLED BY BINDING ARBITRATION IN THE COUNTY OF ST. LOUIS IN ACCORDANCE WITH THE RULES THEN IN FORCE OF THE AMERICAN ARBITRATION ASSOCIATION, AND JUDGMENT UPON THE AWARD RENDERED MAY BE ENTERED AND ENFORCED IN ANY COURT HAVING JURISDICTION THEREOF. THE CONTROVERSIES OR CLAIMS SUBJECT TO ARBITRATION AT COMPANY'S OPTION UNDER THIS AGREEMENT INCLUDE, WITHOUT LIMITATION, THOSE ARISING UNDER TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, 42 U.S.C. SECTION 1981, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, THE AMERICANS WITH DISABILITIES ACT, THE FAMILY AND MEDICAL LEAVE ACT, THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, THE MISSOURI HUMAN RIGHTS ACT, LOCAL LAWS GOVERNING EMPLOYMENT, AND THE STATUTORY AND/OR COMMON LAW OF CONTRACT AND TORT. IN THE EVENT EMPLOYEE COMMENCES ANY ACTION IN COURT WHICH COMPANY HAS THE RIGHT TO SUBMIT TO BINDING ARBITRATION, COMPANY SHALL HAVE SIXTY (60) DAYS FROM THE DATE OF SERVICE OF A SUMMONS AND COMPLAINT UPON COMPANY TO DIRECT IN WRITING THAT ALL OR ANY PART OF THE DISPUTE BE ARBITRATED. ANY REMEDY AVAILABLE IN ANY COURT ACTION SHALL ALSO BE AVAILABLE IN ARBITRATION.

18. Headings. Section headings are provided in this Agreement for convenience only and shall not be deemed to substantively alter the content of such sections.

PLEASE NOTE: BY SIGNING THIS AGREEMENT, EMPLOYEE IS HEREBY CERTIFYING THAT EMPLOYEE (A) HAS RECEIVED A COPY OF THIS AGREEMENT FOR REVIEW AND STUDY BEFORE EXECUTING IT; (B) HAS READ THIS AGREEMENT CAREFULLY BEFORE SIGNING IT; (C) HAS HAD SUFFICIENT OPPORTUNITY BEFORE SIGNING THE AGREEMENT TO ASK ANY QUESTIONS EMPLOYEE HAS ABOUT THE AGREEMENT AND HAS RECEIVED SATISFACTORY ANSWERS TO ALL SUCH QUESTIONS; AND (D) UNDERSTANDS EMPLOYEE'S RIGHTS AND OBLIGATIONS UNDER THE AGREEMENT.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY COMPANY.

/s/ BARRY ERDOS

Barry Erdos

Address:

BUILD-A-BEAR WORKSHOP, INC.

By: /s/ MAXINE CLARK

Maxine Clark, Chief Executive Bear

Exhibit 10.6

EMPLOYMENT, CONFIDENTIALITY AND NONCOMPETE AGREEMENT

This Employment, Confidentiality and Noncompete Agreement ("Agreement") is entered into effective as of the 7th day of March, 2004, by and between Build-A-Bear Workshop, Inc., a Delaware corporation ("Company"), and Tina L. Klocke ("Employee").

WHEREAS, Company desires to employ and Employee desires to be employed as the Chief Workshop Officer of Company.

WHEREAS, Company has pioneered the retail concept of "make your own" stuff plush toys, including animals and dolls, and is engaged in, among other things, the business of production, marketing, promotion and distribution of plush stuff toys, clothing, accessories and similar items, including without limitation, the ownership, management, franchising, leasing and development of retail stores in which the basic operation is the selling of such items, and the promotion of the related concepts and characters through merchandising and mass media. The Company is headquartered and its principal place of business are located in, and this Agreement is being signed in, St. Louis, Missouri.

WHEREAS, Company conducts business in selected locations throughout the United States and internationally through franchise arrangements.

WHEREAS, Company has expended a great deal of time, money and effort to develop and maintain its proprietary Confidential Information (as defined herein) which is material to Company and which, if misused or disclosed, could be very harmful to Company's business.

WHEREAS, the success of Company depends to a substantial extent upon the protection of its Confidential Information and goodwill by all of its employees.

WHEREAS, Company compensates its employees to, among other things, develop and preserve goodwill with its customers, landlords, suppliers and partners on Company's behalf and business information for Company's ownership and use.

WHEREAS, if Employee were to leave Company, Company, in all fairness, would need certain protections in order to prevent competitors of Company from gaining an unfair competitive advantage over Company or diverting goodwill from Company, or to prevent Employee from misusing or misappropriating the Confidential Information.

NOW, THEREFORE, in consideration of the compensation and other benefits of Employee's employment by Company and the recitals, mutual covenants and agreements hereinafter set forth, Employee and Company agree as follows:

1. Employment Services.

(a) Employee is hereby employed by Company, and Employee hereby accepts such employment, upon the terms and conditions hereinafter set forth. Employee shall serve

as Chief Financial Bear, during the Employment Period, on a full-time basis. Employee shall carry out such duties as are assigned to her by Company's Chief Executive Bear or President and Chief Operating Officer Bear.

(b) Employee agrees that throughout Employee's employment with Company, Employee will (i) faithfully render such services as may be delegated to Employee by Company, (ii) devote substantially all of Employee's entire business time, good faith, best efforts, ability, skill and attention to Company's business, and (iii) follow and act in accordance with all of the rules, policies and procedures of Company, including but not limited to working hours, sales and promotion policies, and specific Company rules. Company further agrees that it shall not during the Initial Term of this Agreement require Employee to relocate her residence outside of the St. Louis metropolitan area.

(c) "Company" means Build-A-Bear Workshop, Inc. or one of its Subsidiaries, whichever is Employee's employer. The term "Subsidiary" means any corporation, joint venture or other business organization in which Build-A-Bear Workshop, Inc. now or hereafter, directly or indirectly, owns or controls more than fifty percent (50%) interest.

2. Term of Employment. The term of this Agreement shall commence on the date first set forth above, and shall end on the third anniversary hereof, unless sooner terminated as provided in Section 4 hereof (the "Initial Term"). Following the Initial Term, this Agreement shall automatically renew for successive one-year periods (each a "Renewal Period"; collectively, the Initial Term and each Renewal Period, the "Employment Period"), unless sooner terminated as provided in Section 4 hereof.

3. Compensation.

(a) Base Salary. During the Employment Period, Company shall pay Employee as compensation for her services an annual base salary of not less than One Hundred Ninety Thousand Dollars ($190,000), payable in accordance with Company's usual practices. Employee's annual base salary rate shall be reviewed by Company's Compensation Committee at least annually for increase following each fiscal year so that Employee's salary will be commensurate for similarly situated executives with firms similarly situated to Company; provided, however, that if Employee's individualized performance targets (set for each fiscal year by Employee and Employee's team leader) are achieved, Employee's annual base salary rate shall not be subject to decrease at any time during the Employment Period and shall be subject to annual increase by no less than the average percentage increase given to all other Company executive employees for such fiscal year (the "Average Increase").

(b) Bonus. Should Company exceed its sales, profits and other objectives for any fiscal year, Employee shall be eligible to receive a bonus for such fiscal year as determined by the Compensation Committee of the Board of Directors. For the current fiscal year, Employee will participate in the Chiefs Bonus plan previously approved by the compensation committee of the Board of Directors. In future years, such bonus opportunity will not be less than fifty percent (50%) of the Employee's annual base pay for such fiscal year. Any bonus payable to Employee will be payable in cash, stock or stock options, or combination thereof, all as determined by the Board of Directors or any duly authorized committee thereof, and unless a different payout schedule is applicable for all executive employees of the Company, any such bonus payment will be payable in a single, lump sum payment. For the current fiscal year, and in the event of termination of this Agreement because of Employee's death or disability (as defined by Section 4.1(b)), termination by the Company without Cause pursuant to Section 4.1(c) or pursuant to Employee's right to terminate this Agreement for Good Reason under Section 4.1(d), the bonus criteria shall not change and any bonus shall be pro-rated based on the number of full calendar weeks during the applicable fiscal year during which Employee was employed hereunder.

Such bonus, if any, shall be payable after Company's accountants have determined the sales and profits and have issued their audit report with respect thereto for the applicable fiscal year, which determination shall be binding on the parties. Any such bonus shall be paid within one hundred twenty (120) days after the end of each calendar year or thirty (30) days after the issuance of the auditor's report, whichever is later, regardless of Employee's employment status at the time payment is due.

(c) Stock Options. Employee had previously been granted options to purchase 163,000 shares of Company's common stock (the "Common Stock"), pursuant to the terms set forth more particularly in the Option Agreements used in connection with the Build-A-Bear Workshop, Inc. 2000 Stock Option Plan (or any successor plan) (the "Plan"). For 2004, Employee shall be granted options to purchase an additional 25,000 shares pursuant to the Plan and the applicable Option Agreements. It is intended that such additional options will be granted pursuant to the Plan, and will be incentive stock options. Future options to purchase the Common Stock may be granted upon the recommendation of the Chief Executive Bear, in her discretion, and approval of the Compensation Committee.

(d) Discounts. Employee and her immediate family will be entitled to a 20% discount for all merchandise purchased at Company's stores.

(e) Vacation. Employee shall be entitled to paid vacation and paid sick leave on the same basis as may from time to time apply to other Company executive employees generally. Vacations will be scheduled with the approval of Company's Chief Executive Bear or President and Chief Operating Officer Bear, who may block out certain periods of time during which vacations may not be taken, including preceding Valentine's Day, preceding Easter, from November 1 through December 31, during Company inventory, and just prior to store openings. One-third of one year's vacation (or any part of it) may be carried over to the next year; provided that such carry over is used in the first calendar quarter of the next year. Unless approved by the Chief Executive Bear or President and Chief Operating Officer Bear, all unused vacation shall be forfeited. No more than two weeks of vacation can be taken at one time. Employee shall also be entitled to one (1) additional day per calendar year of paid vacation to be taken in the month of her birthday.

(f) Other. Employee shall be eligible for such other perquisites as may from time to time be awarded to Employee by Company payable at such times and in such amounts as Company, in its sole discretion, may determine. All such compensation shall be subject to customary withholding taxes and other employment taxes as required with respect thereto. Employee shall also qualify for all rights and benefits for which Employee may be eligible under any benefit plans including group life, medical, health, dental and/or disability insurance or other benefits ("Welfare Benefits") which are provided for employees generally at her then current location of employment.

4. Termination of Employment.

4.1 Termination Events. Prior to the expiration of the Employment Period, this Agreement and Employee's employment may be terminated as follows:

(a) Upon Employee's death;

(b) By the Company, upon thirty (30) day's prior written notice to Employee in the event Employee, by reason of permanent physical or mental disability (which shall be determined by a physician selected by Company or its insurers and acceptable to Employee or Employee's legal representative (such agreement as to acceptability not to be withheld unreasonably), shall be unable to perform the essential functions of her position, with or without reasonable accommodation, for three (3) consecutive months; provided, however, Employee shall not be terminated due to permanent physical or mental disability unless or until said disability also entitles Employee to benefits under such disability insurance policy as is provided to Employee by Company.

(c) By the Company with or without Cause. For the purposes of this Agreement, "Cause" shall mean: (i) Employee's engagement in any conduct which, in Company's reasonable determination, constitutes gross misconduct, or is illegal, unethical or improper provided such conduct brings detrimental notoriety or material harm to Company; (ii) gross negligence or willful misconduct; (iii) conviction of fraud or theft; (iv) a material breach of a material provision of this Agreement by Employee, or (v) failure of Employee to follow a written directive of the Chief Executive Bear or the Board of Directors within thirty (30) days after receiving such notice, provided that such directive is reasonable in scope or is otherwise within the Chief Executive Bear's or the Board's reasonable business judgment, and is reasonably within Employee's control; provided Employee does not cure said conduct or breach (to the extent curable) within 30 days after the Chief Executive Bear or the Board of Directors provides Employee with written notice of said conduct or breach.

(d) By the Employee with or without Good Reason. For purposes of this Agreement, "Good Reason" shall mean (i) a material breach of a material provision of this Agreement by Company, or (ii) relocating Employee to a location more than 100 miles from St. Louis without the express written consent of Employee; provided Company does not cure said breach within thirty (30) days after Employee provides the Board of Directors with written notice of the breach.

4.2 Impact of Termination.

(a) Survival of Covenants. Upon termination of this Agreement, all rights and obligations of the parties hereunder shall cease, except termination of employment pursuant to Section 4 or otherwise shall not terminate or otherwise affect the rights and obligations of the parties pursuant to Sections 5 through 13 hereof.

(b) Severance. In the event during the Employment Period (i) the Company terminates Employee's employment without Cause pursuant to Section 4.1(c) or (ii) the Employee terminates her employment for Good Reason pursuant to Section 4.1(d), the Company shall continue her base salary for a period of twelve (12) months from termination, such payments to be reduced by the amount of any compensation from a subsequent employer during such period. The Company shall also continue Employee's Welfare Benefits for such period to the extent permitted by the Company's Welfare Benefit Plans. Employee shall accept these payments in full discharge of all obligations of any kind which Company has to her except obligations, if any, to repurchase any capital stock of Company owned by Employee. Employee shall also be eligible to receive a bonus with respect to the year of termination as provided in Section 3(b).

5. Confidential Information.

(a) Employee agrees to keep secret and confidential, and not to use or disclose to any third parties, except as directly required for Employee to perform Employee's employment responsibilities for Company, any of Company's proprietary Confidential Information.

(b) Employee acknowledges and confirms that certain data and other information (whether in human or machine readable form) that comes into her possession or knowledge (whether before or after the date of this Agreement) and which was obtained from Company, or obtained by Employee for or on behalf of Company, and which is identified herein (the "Confidential Information") is the secret, confidential property of Company. This Confidential Information includes, but is not limited to:

(1) lists or other identification of customers or prospective customers of Company;

(2) lists or other identification of sources or prospective sources of Company's products or components thereof, its landlords and prospective landlords and its current and prospective alliance, marketing and media partners (and key individuals employed or engaged by such parties);

(3) all compilations of information, correspondence, designs, drawings, files, formulae, lists, machines, maps, methods, models, studies, surveys, scripts, screenplays, artwork, sketches, notes or other writings, plans, leases, records and reports;

(4) financial, sales and marketing data relating to Company or to the industry or other areas pertaining to Company's activities and contemplated

activities (including, without limitation, leasing, manufacturing, transportation, distribution and sales costs and non-public pricing information);

(5) equipment, materials, designs, procedures, processes, and techniques used in, or related to, the development, manufacture, assembly, fabrication or other production and quality control of Company's products, stores and services;

(6) Company's relations with its past, current and prospective customers, suppliers, landlords, alliance, marketing and media partners and the nature and type of products or services rendered to, received from or developed with such parties or prospective parties;

(7) Company's relations with its employees (including, without limitation, salaries, job classifications and skill levels); and

(8) any other information designated by Company to be confidential, secret and/or proprietary (including without limitation, information provided by customers, suppliers and alliance partners of Company).

Notwithstanding the foregoing, the term Confidential Information shall not consist of any data or other information which has been made publicly available or otherwise placed in the public domain other than by Employee in violation of this Agreement.

(c) During the Employment Period, Employee will not copy, reproduce or otherwise duplicate, record, abstract, summarize or otherwise use, any papers, records, reports, studies, computer printouts, equipment, tools or other property owned by Company except as expressly permitted by Company in writing or required for the proper performance of her duties on behalf of Company.

6. Post-Termination Restrictions. Employee recognizes that (i) Company has spent substantial money, time and effort over the years in developing and solidifying its relationships with its customers, suppliers, landlords and alliance, marketing and media partners and in developing its Confidential Information; (ii) long-term customer, landlord, supplier and partner relationships often can be difficult to develop and require a significant investment of time, effort and expense; (iii) Company has paid its employees to, among other things, develop and preserve business information, customer, landlord, vendor and partner goodwill, customer, landlord, vendor and partner loyalty and customer, landlord, vendor and partner contacts for and on behalf of Company; and (iv) Company is hereby agreeing to employ and pay Employee based upon Employee's assurances and promises not to divert goodwill of customers, landlords, suppliers or partners of Company, either individually or on a combined basis, or to put herself in a position following Employee's employment with Company in which the confidentiality of Company's Confidential Information might somehow be compromised. Accordingly, Employee agrees that during the Employment Period and for the period of time set forth below following termination of employment, provided termination is in accordance with the terms of paragraph 4(b) or (c) or due to

expiration of the Employment Period, Employee will not, directly or indirectly (whether as owner, partner, consultant, employee or otherwise):

(a) for three (3) years, engage in, assist or have an interest in, or enter the employment of or act as an agent, advisor or consultant for, any person or entity which is engaged in, or will be engaged in, the development, manufacture, supplying or sale of a product, process, service or development which is competitive with a product, process, service or development on which Employee worked or with respect to which Employee has or had access to Confidential Information while at Company ("Restricted Activity"), and which is located within the United States or within any country where the Company has established a retail presence either directly or through a franchise arrangement; or

(b) for three (3) years, induce or attempt to induce any employee, consultant, partner or advisor of Company to accept employment or an affiliation with any entity engaged in a Restricted Activity;

provided, however, that following termination of her employment, Employee shall be entitled to be an employee of an entity that engages in Restricted Activity so long as, for three (3) years following termination of said employment: (i) the sale of stuffed plush toys is not a material business of the entity; (ii) Employee has no direct or personal involvement in the sale of stuffed plush toys; and (iii) neither Employee, her relatives, nor any other entities with which she is affiliated own more than 1% of the entity. As used in this Section 6, "material business" shall mean that either (A) greater than 10% of annual revenues received by such entity were derived from the sale of stuffed plush toys and related products, or (B) the annual revenues received or projected to be received by such entity from the sale of stuffed plush toys and related products exceeded $10 million, or (C) or the entity otherwise annually derives or is projected to derive annual revenues in excess of $5 million from a retail concept that is similar in any material regard to Company.

7. Acknowledgment Regarding Restrictions. Employee recognizes and agrees that the restraints contained in Section 6 (both separately and in total), including the geographic scope thereof in light of the Company's marketing efforts, are reasonable and enforceable in view of Company's legitimate interests in protecting its Confidential Information and customer goodwill and the limited scope of the restrictions in Section 6.

8. Inventions.

(a) Any and all ideas, inventions, discoveries, patents, patent applications, continuation-in-part patent applications, divisional patent applications, technology, copyrights, derivative works, trademarks, service marks, improvements, trade secrets and the like (collectively, "Inventions"), which are developed, conceived, created, discovered, learned, produced and/or otherwise generated by Employee, whether individually or otherwise, during the time that Employee is employed by Company, whether or not during working hours, that relate to (i) current and anticipated businesses and/or activities of Company, (ii) the current and anticipated research or development of Company, or (iii) any work performed by Employee for Company, shall be the sole and exclusive property of Company, and Company shall own any and all right, title and interest to such Inventions. Employee assigns, and agrees to assign to Company whenever so requested by Company, any and all right, title and interest in and to any such Invention, at Company's expense, and Employee agrees to execute any and all applications, assignments or other instruments which Company deems desirable or necessary to protect such interests, at Company's expense.

(b) Employee acknowledges that as part of his work for the Company he or she may be asked to create, or contribute to the creation of, computer programs, documentation and other copyrightable works. Employee hereby agrees that any and all computer programs, documentation and other copyrightable materials that he has prepared or worked on for the Company, or is asked to prepare or work on by the Company, shall be treated as and shall be a "work made for hire," for the exclusive ownership and benefit of Company according to the copyright laws of the United States, including, but not limited to, Sections 101 and 201 of Title 17 of the U.S. Code ("U.S.C.") as well as according to similar foreign laws. Company shall have the exclusive right to register the copyrights in all such works in its name as the owner and author of such works and shall have the exclusive rights conveyed under 17 U.S.C. Sections 106 and 106A including, but not limited to, the right to make all uses of the works in which attribution or integrity rights may be implicated. Without in any way limiting the foregoing, to the extent the works are not treated as works made for hire under any applicable law, Employee hereby irrevocably assigns, transfers, and conveys to Company and its successors and assigns any and all worldwide right, title, and interest that Employee may now or in the future have in or to the works, including, but not limited to, all ownership, U.S. and foreign copyrights, all treaty, convention, statutory, and common law rights under the law of any U.S. or foreign jurisdiction, the right to sue for past, present, and future infringement, and moral, attribution, and integrity rights. Employee[and its employees and agents] hereby expressly and forever irrevocably waives any and all rights that he or she[or they] may have arising under 17 U.S.C. Sections 106A, rights that may arise under any federal, state, or foreign law that conveys rights that are similar in nature to those conveyed under 17 U.S.C. Sections 106A, and any other type of moral right or droit moral.

9. Company Property. Employee acknowledges that any and all notes, records, sketches, computer diskettes, training materials and other documents relating to Company obtained by or provided to Employee, or otherwise made, produced or compiled during the Employment Period, regardless of the type of medium in which they are preserved, are the sole and exclusive property of Company and shall be surrendered to Company upon Employee's termination of employment and on demand at any time by Company.

10. Non-Waiver of Rights. Either party's failure to enforce at any time any of the provisions of this Agreement or to require at any time performance by the other party of any of the provisions hereof shall in no way be construed to be a waiver of such provisions or to affect either the validity of this Agreement, or any part hereof, or the right of the non-breaching party thereafter to enforce each and every provision in accordance with the terms of this Agreement.

11. Company's Right to Injunctive Relief. In the event of a breach or threatened breach of any of Employee's duties and obligations under the terms and provisions of Sections 5, 6, or 8 hereof, Company shall be entitled, in addition to any other legal or equitable remedies it may have in connection therewith (including any right to damages that it may suffer), to temporary,

preliminary and permanent injunctive relief restraining such breach or threatened breach. Employee hereby expressly acknowledges that the harm which might result to Company's business as a result of any noncompliance by Employee with any of the provisions of Sections 5, 6 or 8 would be largely irreparable. Employee specifically agrees that if there is a question as to the enforceability of any of the provisions of Sections 5, 6 or 8 hereof, Employee will not engage in any conduct inconsistent with or contrary to such Sections until after the question has been resolved by a final judgment of a court of competent jurisdiction.

12. Judicial Enforcement. If any provision of this Agreement is adjudicated to be invalid or unenforceable under applicable law in any jurisdiction, the validity or enforceability of the remaining provisions thereof shall be unaffected as to such jurisdiction and such adjudication shall not affect the validity or enforceability of such provisions in any other jurisdiction. To the extent that any provision of this Agreement is adjudicated to be invalid or unenforceable because it is overbroad, that provision shall not be void but rather shall be limited only to the extent required by applicable law and enforced as so limited. The parties expressly acknowledge and agree that this Section is reasonable in view of the parties' respective interests.

13. Employee Representations. Employee represents that the execution and delivery of the Agreement and Employee's employment with Company do not violate any previous employment agreement or other contractual obligation of Employee and that Employee is not subject to any agreement which restricts the scope of her employment.

14. Amendments. No modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing specifically referring hereto, and signed by the parties hereto. This Agreement supersedes all prior agreements and understandings between Employee and Company to the extent that any such agreements or understandings conflict with the terms of this Agreement.

15. Assignments. This Agreement shall be freely assignable by Company to and shall inure to the benefit of, and be binding upon, Company, its successors and assigns and/or any other entity which shall succeed to the business presently being conducted by Company. Being a contract for personal services, neither this Agreement nor any rights hereunder shall be assigned by Employee.

16. Choice of Forum and Governing Law. In light of Company's substantial contacts with the State of Missouri, the parties' interests in ensuring that disputes regarding the interpretation, validity and enforceability of this Agreement are resolved on a uniform basis, and Company's execution of, and the making of, this Agreement in Missouri, the parties agree that: (i) any litigation involving any noncompliance with or breach of the Agreement, or regarding the interpretation, validity and/or enforceability of the Agreement, shall be filed and conducted in the state or federal courts in St. Louis City or County, Missouri; and (ii) the Agreement shall be interpreted in accordance with and governed by the laws of the State of Missouri, without regard for any conflict of law principles.

17. ARBITRATION. ANY CONTROVERSY OR CLAIM ARISING OUT OF, OR RELATING TO THIS AGREEMENT, THE BREACH THEREOF, OR EMPLOYEE'S EMPLOYMENT BY COMPANY, SHALL, AT COMPANY'S SOLE OPTION, BE SETTLED BY BINDING ARBITRATION IN THE COUNTY OF ST. LOUIS IN ACCORDANCE WITH THE RULES THEN IN FORCE OF THE AMERICAN ARBITRATION ASSOCIATION, AND JUDGMENT UPON THE AWARD RENDERED MAY BE ENTERED AND ENFORCED IN ANY COURT HAVING JURISDICTION THEREOF. THE CONTROVERSIES OR CLAIMS SUBJECT TO ARBITRATION AT COMPANY'S OPTION UNDER THIS AGREEMENT INCLUDE, WITHOUT LIMITATION, THOSE ARISING UNDER TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, 42 U.S.C. SECTION 1981, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, THE AMERICANS WITH DISABILITIES ACT, THE FAMILY AND MEDICAL LEAVE ACT, THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, THE MISSOURI HUMAN RIGHTS ACT, LOCAL LAWS GOVERNING EMPLOYMENT, AND THE STATUTORY AND/OR COMMON LAW OF CONTRACT AND TORT. IN THE EVENT EMPLOYEE COMMENCES ANY ACTION IN COURT WHICH COMPANY HAS THE RIGHT TO SUBMIT TO BINDING ARBITRATION, COMPANY SHALL HAVE SIXTY (60) DAYS FROM THE DATE OF SERVICE OF A SUMMONS AND COMPLAINT UPON COMPANY TO DIRECT IN WRITING THAT ALL OR ANY PART OF THE DISPUTE BE ARBITRATED. ANY REMEDY AVAILABLE IN ANY COURT ACTION SHALL ALSO BE AVAILABLE IN ARBITRATION.

18. Headings. Section headings are provided in this Agreement for convenience only and shall not be deemed to substantively alter the content of such sections.

PLEASE NOTE: BY SIGNING THIS AGREEMENT, EMPLOYEE IS HEREBY CERTIFYING THAT EMPLOYEE (A) HAS RECEIVED A COPY OF THIS AGREEMENT FOR REVIEW AND STUDY BEFORE EXECUTING IT; (B) HAS READ THIS AGREEMENT CAREFULLY BEFORE SIGNING IT; (C) HAS HAD SUFFICIENT OPPORTUNITY BEFORE SIGNING THE AGREEMENT TO ASK ANY QUESTIONS EMPLOYEE HAS ABOUT THE AGREEMENT AND HAS RECEIVED SATISFACTORY ANSWERS TO ALL SUCH QUESTIONS; AND (D) UNDERSTANDS EMPLOYEE'S RIGHTS AND OBLIGATIONS UNDER THE AGREEMENT.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY COMPANY.

/s/ TINA L. KLOCKE

Tina L. Klocke

Address: --------------------------

BUILD-A-BEAR WORKSHOP, INC.

By: /s/ MAXINE CLARK

Name: Maxine Clark
Title: Chief Executive Bear

EXHIBIT 10.7

EMPLOYMENT, CONFIDENTIALITY AND NONCOMPETE AGREEMENT

This Employment, Confidentiality and Noncompete Agreement ("Agreement") is made and entered into effective as of the 9th day of July, 2001, by and between Build-A-Bear Workshop, Inc., a Delaware corporation ("Company"), and John F. Burtelow ("Employee").

WHEREAS, Company desires to employ and Employee desires to be employed as the Chief Banking Officer of Company.

WHEREAS, Company is engaged in, among other things, the business of production, marketing, promotion and distribution of stuffed animals, clothing, accessories and similar items, including without limitation, the ownership, management, franchising, leasing and development of retail stores in which the basic operation is the selling of such items. The Company is headquartered and its principal place of business are located in, and this Agreement is being signed in, St. Louis, Missouri.

WHEREAS, Company conducts business in selected locations throughout the United States.

WHEREAS, Company has expended a great deal of time, money and effort to develop and maintain its proprietary Confidential Information (as defined herein) which is material to Company and which, if misused or disclosed, could be very harmful to Company's business.

WHEREAS, the success of Company depends to a substantial extent upon the protection of its Confidential Information and customer goodwill by all of its employees.

WHEREAS, Company compensates its employees to, among other things, develop and preserve goodwill with its customers on Company's behalf and business information for Company's ownership and use.

WHEREAS, if Employee were to leave Company, Company, in all fairness, would need certain protections in order to prevent competitors of Company from gaining an unfair competitive advantage over Company or diverting goodwill from Company, or to prevent Employee from misusing or misappropriating the Confidential Information.

NOW, THEREFORE, in consideration of the compensation and other benefits of Employee's employment by Company and the recitals, mutual covenants and agreements hereinafter set forth, Employee and Company agree as follows:

1. Employment Services.

(a) Employee is hereby employed by Company, and Employee hereby accepts such employment, upon the terms and conditions hereinafter set forth. Employee shall serve as Chief Banking Officer, during the Employment Period, on a full-time basis. Employee shall carry out such duties as are assigned to him by Company's President and Chief Executive Officer.

(b) Employee agrees that throughout Employee's employment with Company, Employee will (i) faithfully render such services as may be delegated to Employee by Company, (ii) devote substantially all of Employee's entire business time, good faith, best efforts, ability, skill and attention to Company's business, and (iii) follow and act in accordance with all of the rules, policies and procedures of Company, including but not limited to working hours, sales and promotion policies, and specific Company rules. Company further agrees that it shall not relocate its headquarters outside of the St. Louis metropolitan area during the term of this Agreement or otherwise during the term of this Agreement require Employee to relocate his residence outside of the St. Louis metropolitan area.

(c) "Company" means Build-A-Bear Workshop, Inc. or one of its Subsidiaries, whichever is Employee's employer. The term "Subsidiary" means any corporation, joint venture or other business organization in which Build-A-Bear Workshop, Inc. now or hereafter, directly or indirectly, owns or controls more than fifty percent (50%) interest.

2. Term of Employment. The term of this Agreement shall commence on the date first set forth above, and shall end on July 8, 2002, unless sooner terminated as provided in Section 4 hereof (the "Initial Term"). Following the Initial Term, this Agreement shall automatically renew for successive one-year periods (each a "Renewal Period"; collectively, the Initial Term and each Renewal Period, the "Employment Period"), unless sooner terminated as provided in Section 4 hereof.

3. Compensation.

(a) Base Salary. During the Employment Period, Company shall pay Employee as compensation for his services an annual base salary of not less than One Hundred Seventy-Five Thousand Dollars ($175,000), payable in accordance with Company's usual practices. Employee's annual base salary rate shall be reviewed by Company's Compensation Committee at least annually for increase following each fiscal year so that Employee's salary will be commensurate for similarly situated executives with firms similarly situated to Company; provided, however, that if Employee's individualized performance targets (set for each fiscal year by Employee and Employee's team leader) are achieved, Employee's annual base salary rate shall not be subject to decrease at any time during the Employment Period and shall be subject to annual increase by no less than the average percentage increase given to all other Company executive employees for such fiscal year (the "Average Increase"). Notwithstanding the foregoing, for the fiscal year ended December 31, 2001, the Average Increase shall be pro-rated so that Employee shall only be entitled to five-twelfths of his base salary increase, if any.

(b) Bonus. Should Company exceed its sales, profits and other objectives as set forth on EXHIBIT 3(c) attached hereto for the fiscal year beginning January 2, 2001 and ending December 31, 2001, Employee shall receive a bonus for such fiscal year equal to 35% of Employee's actual annual Base Salary paid during such fiscal year, such bonus to be payable in cash, stock or stock options, or combination thereof, as agreed to by the Board of Directors and Employee. Should Company exceed its sales, profits and other objectives as agreed upon between

Employee and Board of Directors at the beginning of each calendar year for any fiscal year thereafter during the Employment Period, Employee shall be entitled to receive a bonus for such fiscal year equal to an amount agreed upon by Employee and the Board of Directors, such bonus to be payable in cash, stock or stock options, or combination thereof, as agreed to by the Board of Directors and Employee; provided that in no event shall such bonus be less than 35% of Employee's actual annual Base Salary paid during such fiscal year. In the event of termination of this Agreement because of Employee's death or disability (as defined by paragraph 4(b)), or pursuant to Employee's right to terminate this Agreement under paragraph 4, the bonus criteria shall not change and any bonus shall be pro-rated based on the number of full calendar weeks during the applicable fiscal year during which Employee was employed hereunder.

Such bonus, if any, shall be payable after Company's accountants have determined the sales and profits and have issued their audit report with respect thereto for the applicable fiscal year, which determination shall be binding on the parties. Any such bonus shall be paid within one hundred twenty (120) days after the end of each calendar year or thirty (30) days after the issuance of the auditor's report, whichever is later, regardless of Employee's employment status at the time payment is due. For the period after the fiscal year ending December 31, 2001, Employee's bonus shall be based upon Company exceeding sales and profit objectives as agreed upon between Employee and Board of Directors at the beginning of each calendar year. The objectives and formula for determining bonuses, once agreed upon, shall be put in writing and signed by Employee and Board of Directors

(c) Stock Options. Subject to approval by Company's Compensation Committee, an option to purchase 20,000 shares of Company's common stock, par value $.01 per share (the "Common Stock"), will be granted to Employee, pursuant to the terms set forth more particularly in the Option Agreement used in connection with the Build-A-Bear Workshop, Inc. 2000 Stock Option Plan (the "Plan"). It is intended that such option will be granted pursuant to the Plan, and will be a non-qualified stock option. Future options to purchase the Common Stock may granted upon the recommendation of the Chief Executive Officer, in her discretion, and approval of the Compensation Committee.

(d) Discounts. Employee and his immediate family will be entitled to a 20% discount for all merchandise purchased at Company's stores.

(e) Vacation. After completing ninety (90) days of continuous service, Employee shall be entitled to fifteen (15) days per calendar year of paid vacation, and paid sick leave on the same basis as may from time to time apply to other Company executive employees generally. Vacations will be scheduled with the approval of Company's President and Chief Executive Officer, who may block out certain periods of time during which vacations may not be taken, including preceding Valentine's Day, preceding Easter, from November 1 through December 31, during Company inventory, and just prior to store openings. One-third of one year's vacation (or any part of it) may be carried over to the next year; provided that such carry over is used in the first calendar quarter of the next year. All unused vacation shall be forfeited. No more than two weeks of vacation can be taken at one time. After completing ninety (90) days of continuous service, Employee shall also be entitled to one (1) day per calendar year of paid vacation to be taken in the month of his birthday.

(f) Other. Employee shall be eligible for such other perquisites as may from time to time be awarded to Employee by Company payable at such times and in such amounts as Company, in its sole discretion, may determine. All such compensation shall be subject to customary withholding taxes and other employment taxes as required with respect thereto. Employee shall also qualify for all rights and benefits for which Employee may be eligible under any benefit plans including group life, medical, health, dental and/or disability insurance or other benefits which are provided for employees generally at his then current location of employment.

4. Termination of Employment. Prior to the expiration of the Employment Period, this Agreement and Employee's employment may be terminated by Company as follows:

(a) Upon Employee's death;

(b) Upon thirty (30) day's prior written notice to Employee in the event Employee, by reason of permanent physical or mental disability (which shall be determined by a physician selected by Company or its insurers and acceptable to Employee or Employee's legal representative (such agreement as to acceptability not to be withheld unreasonably), shall be unable to perform the essential functions of his position, with or without reasonable accommodation, for three (3) consecutive months; provided, however, Employee shall not be terminated due to permanent physical or mental disability unless or until said disability also entitles Employee to benefits under such disability insurance policy as is provided to Employee by Company.

(c) For cause, which for the purposes of this Agreement shall mean: (i) Employee's engagement in any conduct which, in Company's reasonable determination, constitutes gross misconduct, or is illegal, unethical, improper or which otherwise brings detrimental notoriety or material harm to Company; (ii) gross negligence or willful misconduct; (iii) conviction of fraud or theft; (iv) a material breach of a material provision of this Agreement by Employee, or (v) failure of Employee to follow a written directive of the Chief Executive Officer or the Board of Directors within thirty (30) days after receiving such notice, provided that such directive is reasonable in scope or is otherwise within the Chief Executive Officer's or the Board's reasonable business judgment, and is reasonably within Employee's control.

In addition, Employee's employment may be terminated by Employee in the event of a material breach of a material provision of this Agreement by Company, provided Company does not cure said breach within thirty (30) days after Employee provides the Board of Directors with written notice of the breach.

Upon termination of this Agreement, all rights and obligations of the parties hereunder shall cease, except termination of employment pursuant to this Section 4 or otherwise shall not terminate or otherwise affect the rights and obligations of the parties pursuant to Sections 5 through 13 hereof; provided, however, should Company terminate Employee's employment for any reason other than matters set forth in Section 4(b) or 4(c) of this Agreement during the Employment Period, Company shall continue his base salary for a period of up to six (6) months from termination, such payments to cease at the time Employee has obtained other employment. Employee shall accept these payments in full discharge of all obligations of any kind which Company has to him except obligations, if any, to repurchase any capital stock of Company owned by Employee.

5. Confidential Information.

(a) Employee agrees to keep secret and confidential, and not to use or disclose to any third parties, except as directly required for Employee to perform Employee's employment responsibilities for Company, any of Company's proprietary Confidential Information.

(b) Employee acknowledges and confirms that certain data and other information (whether in human or machine readable form) that comes into his possession or knowledge (whether before or after the date of this Agreement) and which was obtained from Company, or obtained by Employee for or on behalf of Company, and which is identified herein (the "Confidential Information") is the secret, confidential property of Company. This Confidential Information includes, but is not limited to:

(1) lists or other identification of customers or prospective customers of Company (and key individuals employed or engaged by such parties);

(2) lists or other identification of sources or prospective sources of Company's products or components thereof (and key individuals employed or engaged by such parties);

(3) all compilations of information, correspondence, designs, drawings, files, formulae, lists, machines, maps, methods, models, notes or other writings, plans, records and reports;

(4) financial, sales and marketing data relating to Company or to the industry or other areas pertaining to Company's activities and contemplated activities (including, without limitation, manufacturing, transportation, distribution and sales costs and non-public pricing information);

(5) equipment, materials, procedures, processes, and techniques used in, or related to, the development, manufacture, assembly, fabrication or other production and quality control of Company's products and services;

(6) Company's relations with its customers, prospective customers, suppliers and prospective suppliers and the nature and type of products or services rendered to such customers (or proposed to be rendered to prospective customers);

(7) Company's relations with its employees (including, without limitation, salaries, job classifications and skill levels); and

(8) any other information designated by Company to be confidential, secret and/or proprietary (including without limitation, information provided by customers or suppliers of Company).

Notwithstanding the foregoing, the term Confidential Information shall not consist of any data or other information which has been made publicly available or otherwise placed in the public domain other than by Employee in violation of this Agreement.

(c) During the Employment Period, Employee will not copy, reproduce or otherwise duplicate, record, abstract, summarize or otherwise use, any papers, records, reports, studies, computer printouts, equipment, tools or other property owned by Company except as expressly permitted by Company in writing or required for the proper performance of his duties on behalf of Company.

6. Post-Termination Restrictions. Employee recognizes that (i) Company has spent substantial money, time and effort over the years in developing and solidifying its relationships with its customers and suppliers and in developing its Confidential Information; (ii) long-term customer relationships often can be difficult to develop and require a significant investment of time, effort and expense; (iii) Company has paid its employees to, among other things, develop and preserve business information, customer goodwill, customer loyalty and customer contacts for and on behalf of Company; and (iv) Company is hereby agreeing to employ and pay Employee based upon Employee's assurances and promises not to divert goodwill of customers or suppliers of Company, either individually or on a combined basis, or to put herself in a position following Employee's employment with Company in which the confidentiality of Company's Confidential Information might somehow be compromised. Accordingly, Employee agrees that during the Employment Period and for the period of time set forth below following termination of employment, provided termination is in accordance with the terms of paragraph 4(b) or (c) or due to expiration of the Employment Period, Employee will not, directly or indirectly (whether as owner, partner, consultant, employee or otherwise):

(a) for three (3) years, engage in, assist or have an interest in, or enter the employment of or act as an agent, advisor or consultant for, any person or entity which is engaged in, or will be engaged in, the development, manufacture, supplying or sale of a product, process, service or development which is competitive with a product, process, service or development on which Employee worked or with respect to which Employee has or had access to Confidential Information while at Company ("Restricted Activity"), and which is located within 100 miles of any Company retail store;

(b) for three (3) years, solicit, call on or provide any Restricted Activity to any customer or active prospective customer of Company which was a customer or supplier of Company at any time during the most recent twelve (12) months of Employee's employment by Company, or cause or attempt to cause such a person to divert, terminate, limit, modify or fail to enter into any existing or potential relationship with Company; or

(c) for three (3) years, induce or attempt to induce any employee, consultant or advisor of Company to accept employment or an affiliation involving Restricted Activity;

provided, however, that following termination of his employment, Employee shall be entitled to be an employee of an entity that engages in Restricted Activity so long as: (i) the sale of stuffed animals is not a principal business of the entity; (ii) Employee has no direct or personal involvement in the sale of stuffed animals; and (iii) neither Employee, his relatives, nor any other entities with which he is affiliated own more than 1% of the entity. As used in this paragraph 6, "principal business" shall mean that greater than 10% of revenues received during the twelve (12) months preceding a dispute under this paragraph 6 were derived from the sale of stuffed animals and related products, or otherwise derives revenues from a retail concept that is similar in any material regard to Company.

7. Acknowledgment Regarding Restrictions. Employee recognizes and agrees that the restraints contained in Section 6 (both separately and in total) are reasonable and enforceable in view of Company's legitimate interests in protecting its Confidential Information and customer goodwill and the limited scope of the restrictions in Section 6.

8. Inventions.

Any and all ideas, inventions, discoveries, patents, patent applications, continuation-in-part patent applications, divisional patent applications, technology, copyrights, derivative works, trademarks, service marks, improvements, trade secrets and the like (collectively, "Inventions"), which are developed, conceived, created, discovered, learned, produced and/or otherwise generated by Employee, whether individually or otherwise, during the time that Employee is employed by Company, whether or not during working hours, that relate to (i) current and anticipated businesses and/or activities of Company, (ii) the current and anticipated research or development of Company, or (iii) any work performed by Employee for Company, shall be the sole and exclusive property of Company, and Company shall own any and all right, title and interest to such Inventions. Employee assigns, and agrees to assign to Company whenever so requested by Company, any and all right, title and interest in and to any such Invention, at Company's expense, and Employee agrees to execute any and all applications, assignments or other instruments which Company deems desirable or necessary to protect such interests, at Company's expense.

9. Company Property. Employee acknowledges that any and all notes, records, sketches, computer diskettes, training materials and other documents relating to Company obtained by or provided to Employee, or otherwise made, produced or compiled during the Employment Period, regardless of the type of medium in which they are preserved, are the sole and exclusive property of Company and shall be surrendered to Company upon Employee's termination of employment and on demand at any time by Company.

10. Non-Waiver of Rights. Either party's failure to enforce at any time any of the provisions of this Agreement or to require at any time performance by the other party of any of the provisions hereof shall in no way be construed to be a waiver of such provisions or to affect either

the validity of this Agreement, or any part hereof, or the right of the non-breaching party thereafter to enforce each and every provision in accordance with the terms of this Agreement.

11. Company's Right to Injunctive Relief. In the event of a breach or threatened breach of any of Employee's duties and obligations under the terms and provisions of Sections 5, 6, or 8 hereof, Company shall be entitled, in addition to any other legal or equitable remedies it may have in connection therewith (including any right to damages that it may suffer), to temporary, preliminary and permanent injunctive relief restraining such breach or threatened breach. Employee hereby expressly acknowledges that the harm which might result to Company's business as a result of any noncompliance by Employee with any of the provisions of Sections 5, 6 or 8 would be largely irreparable. Employee specifically agrees that if there is a question as to the enforceability of any of the provisions of Sections 5, 6 or 8 hereof, Employee will not engage in any conduct inconsistent with or contrary to such Sections until after the question has been resolved by a final judgment of a court of competent jurisdiction.

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14. Amendments. No modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing specifically referring hereto, and signed by the parties hereto. This Agreement supersedes all prior agreements and understandings between Employee and Company to the extent that any such agreements or understandings conflict with the terms of this Agreement.

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interpretation, validity and/or enforceability of the Agreement, shall be filed and conducted in the state or federal courts in St. Louis City or County, Missouri; and (ii) the Agreement shall be interpreted in accordance with and governed by the laws of the State of Missouri, without regard for any conflict of law principles.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY COMPANY.

/s/ John F. Burtelow

John F. Burtelow

Address: 16469 Wilson Farm Drive
Chesterfield, Missouri 63005

BUILD-A-BEAR WORKSHOP, INC.

By: /s/ Maxine Clark

Name: Maxine Clark
Title: President

EXHIBIT 3(c)

The goals and objectives for Employee shall be mutually agreed upon by Employee and the Compensation Committee at the first Compensation Committee meeting after the date of this Agreement.

EMPLOYMENT, CONFIDENTIALITY AND NONCOMPETE AGREEMENT

This Employment, Confidentiality and Noncompete Agreement ("Agreement") is made and entered into effective as of the 7th day of March, 2004, by and between Build-A-Bear Workshop, Inc., a Delaware corporation ("Company"), and Scott Seay ("Employee").

WHEREAS, Company desires to employ and Employee desires to be employed as the Chief Workshop Officer of Company.

WHEREAS, Company has pioneered the retail concept of "make your own" stuff plush toys, including animals and dolls, and is engaged in, among other things, the business of production, marketing, promotion and distribution of plush stuff toys, clothing, accessories and similar items, including without limitation, the ownership, management, franchising, leasing and development of retail stores in which the basic operation is the selling of such items, and the promotion of the related concepts and characters through merchandising and mass media. The Company is headquartered and its principal place of business are located in, and this Agreement is being signed in, St. Louis, Missouri.

WHEREAS, Company conducts business in selected locations throughout the United States and internationally through franchise arrangements.

WHEREAS, Company has expended a great deal of time, money and effort to develop and maintain its proprietary Confidential Information (as defined herein) which is material to Company and which, if misused or disclosed, could be very harmful to Company's business.

WHEREAS, the success of Company depends to a substantial extent upon the protection of its Confidential Information and goodwill by all of its employees.

WHEREAS, Company compensates its employees to, among other things, develop and preserve goodwill with its customers, landlords, suppliers and partners on Company's behalf and business information for Company's ownership and use.

WHEREAS, if Employee were to leave Company, Company, in all fairness, would need certain protections in order to prevent competitors of Company from gaining an unfair competitive advantage over Company or diverting goodwill from Company, or to prevent Employee from misusing or misappropriating the Confidential Information.

NOW, THEREFORE, in consideration of the compensation and other benefits of Employee's employment by Company and the recitals, mutual covenants and agreements hereinafter set forth, Employee and Company agree as follows:

1. Employment Services.

(a) Employee is hereby employed by Company, and Employee hereby accepts such employment, upon the terms and conditions hereinafter set forth. Employee shall serve

as Chief Workshop Officer, during the Employment Period, on a full-time basis. Employee shall carry out such duties as are assigned to him by Company's President and Chief Executive Officer.

(b) Employee agrees that throughout Employee's employment with Company, Employee will (i) faithfully render such services as may be delegated to Employee by Company, (ii) devote substantially all of Employee's entire business time, good faith, best efforts, ability, skill and attention to Company's business, and (iii) follow and act in accordance with all of the rules, policies and procedures of Company, including but not limited to working hours, sales and promotion policies, and specific Company rules. Company further agrees that it shall not during the Initial Term of this Agreement require Employee to relocate his residence outside of the St. Louis metropolitan area.

(c) "Company" means Build-A-Bear Workshop, Inc. or one of its Subsidiaries, whichever is Employee's employer. The term "Subsidiary" means any corporation, joint venture or other business organization in which Build-A-Bear Workshop, Inc. now or hereafter, directly or indirectly, owns or controls more than fifty percent (50%) interest.

2. Term of Employment. The term of this Agreement shall commence on the date first set forth above, and shall end on the third anniversary hereof, unless sooner terminated as provided in Section 4 hereof (the "Initial Term"). Following the Initial Term, this Agreement shall automatically renew for successive one-year periods (each a "Renewal Period"; collectively, the Initial Term and each Renewal Period, the "Employment Period"), unless sooner terminated as provided in Section 4 hereof.

3. Compensation.

(a) Base Salary. During the Employment Period, Company shall pay Employee as compensation for his services an annual base salary of not less than Two Hundred Ninety-Three Thousand Dollars ($293,000), payable in accordance with Company's usual practices. Employee's annual base salary rate shall be reviewed by Company's Compensation Committee at least annually for increase following each fiscal year so that Employee's salary will be commensurate for similarly situated executives with firms similarly situated to Company; provided, however, that if Employee's individualized performance targets (set for each fiscal year by Employee and Employee's team leader) are achieved, Employee's annual base salary rate shall not be subject to decrease at any time during the Employment Period and shall be subject to annual increase by no less than the average percentage increase given to all other Company executive employees for such fiscal year (the "Average Increase").

(b) Bonus. Should Company exceed its sales, profits and other objectives for any fiscal year, Employee shall be eligible to receive a bonus for such fiscal year as determined by the Compensation Committee of the Board of Directors. For the current fiscal year, Employee will participate in the Chiefs Bonus Plan previously approved by the Compensation Committee of the Board of Directors. In future years, such bonus opportunity will not be less than fifty percent (50%) of Employee's annual base pay for such fiscal year. Any bonus payable to Employee will be payable in cash, stock or stock options, or combination thereof, all as determined by the Board of

Directors or any duly authorized committee thereof, and unless a different payout schedule is applicable for all executive employees of the Company, any such bonus payment will be payable in a single, lump sum payment. For the current fiscal year, and in the event of termination of this Agreement because of Employee's death or disability (as defined by Section 4(b)), termination by the Company without Cause pursuant to Section 4.1(c), or pursuant to Employee's right to terminate this Agreement for Good Reason under Section 4.1(d), the bonus criteria shall not change and any bonus shall be pro-rated based on the number of full calendar weeks during the applicable fiscal year during which Employee was employed hereunder.

Such bonus, if any, shall be payable after Company's accountants have determined the sales and profits and have issued their audit report with respect thereto for the applicable fiscal year, which determination shall be binding on the parties. Any such bonus shall be paid within one hundred twenty (120) days after the end of each calendar year or thirty (30) days after the issuance of the auditor's report, whichever is later, regardless of Employee's employment status at the time payment is due.

(c) Stock Options. Employee had previously been granted options to purchase 45,000 shares of Company's common stock (the "Common Stock"), pursuant to the terms set forth more particularly in the Option Agreements used in connection with the Build-A-Bear Workshop, Inc. 2000 Stock Option Plan (or any successor plan) (the "Plan"). For 2004, Employee shall be granted options to purchase an additional 20,000 shares pursuant to the Plan and the applicable Option Agreements. It is intended that such options will be granted pursuant to the Plan, and will be incentive stock options. Future options to purchase the Common Stock may be granted upon the recommendation of the Chief Executive Officer, in her discretion, and approval of the Compensation Committee.

(d) Discounts. Employee and his immediate family will be entitled to a 20% discount for all merchandise purchased at Company's stores.

(e) Vacation. Employee shall be entitled to paid vacation and paid sick leave on the same basis as may from time to time apply to other Company executive employees generally. Vacations will be scheduled with the approval of Company's President and Chief Executive Officer, who may block out certain periods of time during which vacations may not be taken, including preceding Valentine's Day, preceding Easter, from November 1 through December 31, during Company inventory, and just prior to store openings. One-third of one year's vacation (or any part of it) may be carried over to the next year; provided that such carry over is used in the first calendar quarter of the next year. Unless approved by the Chief Executive Bear or President and Chief Operation Officer Bear, all unused vacation shall be forfeited. No more than two weeks of vacation can be taken at one time. Employee shall also be entitled to one (1) additional day per calendar year of paid vacation to be taken in the month of his birthday.

(f) Other. Employee shall be eligible for such other perquisites as may from time to time be awarded to Employee by Company payable at such times and in such amounts as Company, in its sole discretion, may determine. All such compensation shall be subject to customary withholding taxes and other employment taxes as required with respect thereto.

Employee shall also qualify for all rights and benefits for which Employee may be eligible under any benefit plans including group life, medical, health, dental and/or disability insurance or other benefits ("Welfare Benefits") which are provided for employees generally at his then current location of employment.

4. Termination of Employment. Prior to the expiration of the Employment Period, this Agreement and Employee's employment may be terminated as follows:

(a) Upon Employee's death;

(b) By the Company upon thirty (30) day's prior written notice to Employee in the event Employee, by reason of permanent physical or mental disability (which shall be determined by a physician selected by Company or its insurers and acceptable to Employee or Employee's legal representative (such agreement as to acceptability not to be withheld unreasonably), shall be unable to perform the essential functions of his position, with or without reasonable accommodation, for three (3) consecutive months; provided, however, Employee shall not be terminated due to permanent physical or mental disability unless or until said disability also entitles Employee to benefits under such disability insurance policy as is provided to Employee by Company.

(c) By the Company with or without Cause. For the purposes of this Agreement shall, "Cause" shall mean: (i) Employee's engagement in any conduct which, in Company's reasonable determination, constitutes gross misconduct, or is illegal, unethical, improper provided such conduct brings detrimental notoriety or material harm to Company; (ii) gross negligence or willful misconduct; (iii) conviction of fraud or theft; (iv) a material breach of a material provision of this Agreement by Employee, or (v) failure of Employee to follow a written directive of the Chief Executive Bear or the Board of Directors within thirty (30) days after receiving such notice, provided that such directive is reasonable in scope or is otherwise within the Chief Executive Bear's or the Board's reasonable business judgment, and is reasonably within Employee's control; provided Employee does not cure said conduct or breach (to the extent curable) within 30 days after the Chief Executive Bear or the Board of Directors provides Employee with written notice of said conduct or breach.

(d) By the Employee with or without Good Reason. For purposes of this Agreement, "Good Reason" shall mean a material breach of a material provision of this Agreement by Company, provided Company does not cure said breach within thirty (30) days after Employee provides the Board of Directors with written notice of the breach.

4.2 Impact of Termination.

(a) Survival of Covenants. Upon termination of this Agreement, all rights and obligations of the parties hereunder shall cease, except termination of employment pursuant to Section 4 or otherwise shall not terminate or otherwise affect the rights and obligations of the parties pursuant to Sections 5 through 13 hereof.

(b) Severance. In the event during the Employment Period (i) the Company terminates Employee's employment without Cause pursuant to Section 4.1(c) or (ii) the Employee terminates his employment for Good Reason pursuant to Section 4.1(d), the Company shall continue his base salary for a period of twelve (12) months from termination, such payments to be reduced by the amount of any compensation from a subsequent employer during such period. The Company shall also continue Employee's Welfare Benefits for such period to the extent permitted by the Company's Welfare Benefit Plans. Employee shall accept these payments in full discharge of all obligations of any kind which Company has to him except obligations, if any, to repurchase any capital stock of Company owned by Employee. Employee shall also be eligible to receive a bonus with respect to the year of termination as provided in Section 3(b).

5. Confidential Information.

(a) Employee agrees to keep secret and confidential, and not to use or disclose to any third parties, except as directly required for Employee to perform Employee's employment responsibilities for Company, any of Company's proprietary Confidential Information.

(b) Employee acknowledges and confirms that certain data and other information (whether in human or machine readable form) that comes into his possession or knowledge (whether before or after the date of this Agreement) and which was obtained from Company, or obtained by Employee for or on behalf of Company, and which is identified herein (the "Confidential Information") is the secret, confidential property of Company. This Confidential Information includes, but is not limited to:

(1) lists or other identification of customers or prospective

customers of Company;

(2) lists or other identification of sources or prospective sources of Company's products or components thereof, its landlords and prospective landlords and its current and prospective alliance, marketing and media partners (and key individuals employed or engaged by such parties);

(3) all compilations of information, correspondence, designs, drawings, files, formulae, lists, machines, maps, methods, models, studies, surveys, scripts, screenplays, artwork, sketches, notes or other writings, plans, leases, records and reports;

(4) financial, sales and marketing data relating to Company or to the industry or other areas pertaining to Company's activities and contemplated activities (including, without limitation, leasing, manufacturing, transportation, distribution and sales costs and non-public pricing information);

(5) equipment, materials, designs, procedures, processes, and techniques used in, or related to, the development, manufacture, assembly,

fabrication or other production and quality control of Company's products, stores and services;

(6) Company's relations with its past, current and prospective customers, suppliers, landlords, alliance, marketing and media partners and the nature and type of products or services rendered to, received from or developed with such parties or prospective parties;

(7) Company's relations with its employees (including, without limitation, salaries, job classifications and skill levels); and

(8) any other information designated by Company to be confidential, secret and/or proprietary (including without limitation, information provided by customers, suppliers and alliance partners of Company).

Notwithstanding the foregoing, the term Confidential Information shall not consist of any data or other information which has been made publicly available or otherwise placed in the public domain other than by Employee in violation of this Agreement.

(c) During the Employment Period, Employee will not copy, reproduce or otherwise duplicate, record, abstract, summarize or otherwise use, any papers, records, reports, studies, computer printouts, equipment, tools or other property owned by Company except as expressly permitted by Company in writing or required for the proper performance of his duties on behalf of Company.

6. Post-Termination Restrictions. Employee recognizes that (i) Company has spent substantial money, time and effort over the years in developing and solidifying its relationships with its customers, suppliers, landlords and alliance, marketing and media partners and in developing its Confidential Information; (ii) long-term customer, landlord, supplier and partner relationships often can be difficult to develop and require a significant investment of time, effort and expense; (iii) Company has paid its employees to, among other things, develop and preserve business information, customer, landlord, vendor and partner goodwill, customer, landlord, vendor and partner loyalty and customer, landlord, vendor and partner contacts for and on behalf of Company; and (iv) Company is hereby agreeing to employ and pay Employee based upon Employee's assurances and promises not to divert goodwill of customers, landlords, suppliers or partners of Company, either individually or on a combined basis, or to put himself in a position following Employee's employment with Company in which the confidentiality of Company's Confidential Information might somehow be compromised. Accordingly, Employee agrees that during the Employment Period and for the period of time set forth below following termination of employment, provided termination is in accordance with the terms of paragraph 4(b) or (c) or due to expiration of the Employment Period, Employee will not, directly or indirectly (whether as owner, partner, consultant, employee or otherwise):

(a) for three (3) years, engage in, assist or have an interest in, or enter the employment of or act as an agent, advisor or consultant for, any person or entity which is engaged in, or will be engaged in, the development, manufacture, supplying or sale of a product, process, service or development which is competitive with a product, process, service or development on which Employee worked or with respect to which Employee has or had access to Confidential Information while at Company ("Restricted Activity"), and which is located within the United States or within any country where the Company has established a retail presence either directly or through a franchise arrangement; or

(b) for three (3) years, induce or attempt to induce any employee, consultant, partner or advisor of Company to accept employment or an affiliation with any entity engaged in a Restricted Activity;

provided, however, that following termination of his employment, Employee shall be entitled to be an employee of an entity that engages in Restricted Activity so long as: (i) the sale of stuffed plush toys is not a material business of the entity; (ii) Employee has no direct or personal involvement in the sale of stuffed plush toys ; and (iii) neither Employee, his relatives, nor any other entities with which he is affiliated own more than 1% of the entity. As used in this paragraph 6, "material business" shall mean that either (A) greater than 10% of annual revenues received by such entity were derived from the sale of stuffed plush toys and related products, or (B) the annual revenues received or projected to be received by such entity from the sale of stuffed plush toys and related products exceeded $10 million, or (C) or the entity otherwise annually derives or is projected to derive annual revenues in excess of $5 million from a retail concept that is similar in any material regard to Company.

7. Acknowledgment Regarding Restrictions. Employee recognizes and agrees that the restraints contained in Section 6 (both separately and in total), including the geographic scope thereof in light of the Company's marketing efforts, are reasonable and enforceable in view of Company's legitimate interests in protecting its Confidential Information and customer goodwill and the limited scope of the restrictions in Section 6.

8. Inventions.

Any and all ideas, inventions, discoveries, patents, patent applications, continuation-in-part patent applications, divisional patent applications, technology, copyrights, derivative works, trademarks, service marks, improvements, trade secrets and the like (collectively, "Inventions"), which are developed, conceived, created, discovered, learned, produced and/or otherwise generated by Employee, whether individually or otherwise, during the time that Employee is employed by Company, whether or not during working hours, that relate to (i) current and anticipated businesses and/or activities of Company, (ii) the current and anticipated research or development of Company, or (iii) any work performed by Employee for Company, shall be the sole and exclusive property of Company, and Company shall own any and all right, title and interest to such Inventions. Employee assigns, and agrees to assign to Company whenever so requested by Company, any and all right, title and interest in and to any such Invention, at Company's expense, and Employee agrees to execute any and all applications, assignments or other instruments which Company deems desirable or necessary to protect such interests, at Company's expense.

(b) Employee acknowledges that as part of his work for the Company he may be asked to create, or contribute to the creation of, computer programs, documentation and other copyrightable works. Employee hereby agrees that any and all computer programs, documentation and other copyrightable materials that he has prepared or worked on for the Company, or is asked to prepare or work on by the Company, shall be treated as and shall be a "work made for hire," for the exclusive ownership and benefit of Company according to the copyright laws of the United States, including, but not limited to, Sections 101 and 201 of Title 17 of the U.S. Code ("U.S.C.") as well as according to similar foreign laws. Company shall have the exclusive right to register the copyrights in all such works in its name as the owner and author of such works and shall have the exclusive rights conveyed under 17 U.S.C. Sections 106 and 106A including, but not limited to, the right to make all uses of the works in which attribution or integrity rights may be implicated. Without in any way limiting the foregoing, to the extent the works are not treated as works made for hire under any applicable law, Employee hereby irrevocably assigns, transfers, and conveys to Company and its successors and assigns any and all worldwide right, title, and interest that Employee may now or in the future have in or to the works, including, but not limited to, all ownership, U.S. and foreign copyrights, all treaty, convention, statutory, and common law rights under the law of any U.S. or foreign jurisdiction, the right to sue for past, present, and future infringement, and moral, attribution, and integrity rights. Employee hereby expressly and forever irrevocably waives any and all rights that he may have arising under 17 U.S.C. Sections 106A, rights that may arise under any federal, state, or foreign law that conveys rights that are similar in nature to those conveyed under 17 U.S.C. Sections 106A, and any other type of moral right or droit moral.

9. Company Property. Employee acknowledges that any and all notes, records, sketches, computer diskettes, training materials and other documents relating to Company obtained by or provided to Employee, or otherwise made, produced or compiled during the Employment Period, regardless of the type of medium in which they are preserved, are the sole and exclusive property of Company and shall be surrendered to Company upon Employee's termination of employment and on demand at any time by Company.

10. Non-Waiver of Rights. Either party's failure to enforce at any time any of the provisions of this Agreement or to require at any time performance by the other party of any of the provisions hereof shall in no way be construed to be a waiver of such provisions or to affect either the validity of this Agreement, or any part hereof, or the right of the non-breaching party thereafter to enforce each and every provision in accordance with the terms of this Agreement.

11. Company's Right to Injunctive Relief. In the event of a breach or threatened breach of any of Employee's duties and obligations under the terms and provisions of Sections 5, 6, or 8 hereof, Company shall be entitled, in addition to any other legal or equitable remedies it may have in connection therewith (including any right to damages that it may suffer), to temporary, preliminary and permanent injunctive relief restraining such breach or threatened breach. Employee hereby expressly acknowledges that the harm which might result to Company's business as a result of any noncompliance by Employee with any of the provisions of Sections 5, 6 or 8 would be largely irreparable. Employee specifically agrees that if there is a question as to the enforceability of any of the provisions of Sections 5, 6 or 8 hereof, Employee will not engage in any conduct

inconsistent with or contrary to such Sections until after the question has been resolved by a final judgment of a court of competent jurisdiction.

12. Judicial Enforcement. If any provision of this Agreement is adjudicated to be invalid or unenforceable under applicable law in any jurisdiction, the validity or enforceability of the remaining provisions thereof shall be unaffected as to such jurisdiction and such adjudication shall not affect the validity or enforceability of such provisions in any other jurisdiction. To the extent that any provision of this Agreement is adjudicated to be invalid or unenforceable because it is overbroad, that provision shall not be void but rather shall be limited only to the extent required by applicable law and enforced as so limited. The parties expressly acknowledge and agree that this Section is reasonable in view of the parties' respective interests.

13. Employee Representations. Employee represents that the execution and delivery of the Agreement and Employee's employment with Company do not violate any previous employment agreement or other contractual obligation of Employee.

14. Amendments. No modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing specifically referring hereto, and signed by the parties hereto. This Agreement supersedes all prior agreements and understandings between Employee and Company to the extent that any such agreements or understandings conflict with the terms of this Agreement.

15. Assignments. This Agreement shall be freely assignable by Company to and shall inure to the benefit of, and be binding upon, Company, its successors and assigns and/or any other entity which shall succeed to the business presently being conducted by Company. Being a contract for personal services, neither this Agreement nor any rights hereunder shall be assigned by Employee.

16. Choice of Forum and Governing Law. In light of Company's substantial contacts with the State of Missouri, the parties' interests in ensuring that disputes regarding the interpretation, validity and enforceability of this Agreement are resolved on a uniform basis, and Company's execution of, and the making of, this Agreement in Missouri, the parties agree that: (i) any litigation involving any noncompliance with or breach of the Agreement, or regarding the interpretation, validity and/or enforceability of the Agreement, shall be filed and conducted in the state or federal courts in St. Louis City or County, Missouri; and (ii) the Agreement shall be interpreted in accordance with and governed by the laws of the State of Missouri, without regard for any conflict of law principles.

17. ARBITRATION. ANY CONTROVERSY OR CLAIM ARISING OUT OF, OR RELATING TO THIS AGREEMENT, THE BREACH THEREOF, OR EMPLOYEE'S EMPLOYMENT BY COMPANY, SHALL, AT COMPANY'S SOLE OPTION, BE SETTLED BY BINDING ARBITRATION IN THE COUNTY OF ST. LOUIS IN ACCORDANCE WITH THE RULES THEN IN FORCE OF THE AMERICAN ARBITRATION ASSOCIATION, AND JUDGMENT UPON THE AWARD RENDERED MAY BE ENTERED AND ENFORCED IN ANY COURT HAVING JURISDICTION THEREOF. THE CONTROVERSIES OR CLAIMS SUBJECT TO ARBITRATION AT COMPANY'S OPTION UNDER THIS AGREEMENT INCLUDE, WITHOUT LIMITATION, THOSE ARISING UNDER TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, 42

U.S.C. SECTION 1981, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, THE AMERICANS WITH DISABILITIES ACT, THE FAMILY AND MEDICAL LEAVE ACT, THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, THE MISSOURI HUMAN RIGHTS ACT, LOCAL LAWS GOVERNING EMPLOYMENT, AND THE STATUTORY AND/OR COMMON LAW OF CONTRACT AND TORT. IN THE EVENT EMPLOYEE COMMENCES ANY ACTION IN COURT WHICH COMPANY HAS THE RIGHT TO SUBMIT TO BINDING ARBITRATION, COMPANY SHALL HAVE SIXTY (60) DAYS FROM THE DATE OF SERVICE OF A SUMMONS AND COMPLAINT UPON COMPANY TO DIRECT IN WRITING THAT ALL OR ANY PART OF THE DISPUTE BE ARBITRATED. ANY REMEDY AVAILABLE IN ANY COURT ACTION SHALL ALSO BE AVAILABLE IN ARBITRATION.

18. Headings. Section headings are provided in this Agreement for convenience only and shall not be deemed to substantively alter the content of such sections.

PLEASE NOTE: BY SIGNING THIS AGREEMENT, EMPLOYEE IS HEREBY CERTIFYING THAT EMPLOYEE (A) HAS RECEIVED A COPY OF THIS AGREEMENT FOR REVIEW AND STUDY BEFORE EXECUTING IT; (B) HAS READ THIS AGREEMENT CAREFULLY BEFORE SIGNING IT; (C) HAS HAD SUFFICIENT OPPORTUNITY BEFORE SIGNING THE AGREEMENT TO ASK ANY QUESTIONS EMPLOYEE HAS ABOUT THE AGREEMENT AND HAS RECEIVED SATISFACTORY ANSWERS TO ALL SUCH QUESTIONS; AND (D) UNDERSTANDS EMPLOYEE'S RIGHTS AND OBLIGATIONS UNDER THE AGREEMENT.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY COMPANY.

/s/ SCOTT SEAY

Scott Seay

Address:

BUILD-A-BEAR WORKSHOP, INC.

By: /s/ MAXINE CLARK

Name: Maxine Clark
Title: Chief Executive Bear

EXHIBIT 10.9

EMPLOYMENT, CONFIDENTIALITY AND NONCOMPETE AGREEMENT

This Employment, Confidentiality and Noncompete Agreement ("Agreement") is made and entered into effective as of the 10th day of September, 2001, by and between Build-A-Bear Workshop, Inc., a Delaware corporation ("Company"), and Teresa Kroll ("Employee").

WHEREAS, Company desires to employ and Employee desires to be employed as the Chief Marketing Officer of Company.

WHEREAS, Company is engaged in, among other things, the business of production, marketing, promotion and distribution of stuffed animals, clothing, accessories and similar items, including without limitation, the ownership, management, franchising, leasing and development of retail stores in which the basic operation is the selling of such items. The Company is headquartered and its principal place of business are located in, and this Agreement is being signed in, St. Louis, Missouri.

WHEREAS, Company conducts business in selected locations throughout the United States.

WHEREAS, Company has expended a great deal of time, money and effort to develop and maintain its proprietary Confidential Information (as defined herein) which is material to Company and which, if misused or disclosed, could be very harmful to Company's business.

WHEREAS, the success of Company depends to a substantial extent upon the protection of its Confidential Information and customer goodwill by all of its employees.

WHEREAS, Company compensates its employees to, among other things, develop and preserve goodwill with its customers on Company's behalf and business information for Company's ownership and use.

WHEREAS, if Employee were to leave Company, Company, in all fairness, would need certain protections in order to prevent competitors of Company from gaining an unfair competitive advantage over Company or diverting goodwill from Company, or to prevent Employee from misusing or misappropriating the Confidential Information.

NOW, THEREFORE, in consideration of the compensation and other benefits of Employee's employment by Company and the recitals, mutual covenants and agreements hereinafter set forth, Employee and Company agree as follows:

1. Employment Services.

(a) Employee is hereby employed by Company, and Employee hereby accepts such employment, upon the terms and conditions hereinafter set forth. Employee shall serve as Chief Marketing Officer, during the Employment Period, on a full-time basis. Employee shall carry out such duties as are assigned to her by Company's President and Chief Executive Officer.

(b) Employee agrees that throughout Employee's employment with Company, Employee will (i) faithfully render such services as may be delegated to Employee by Company, (ii) devote substantially all of Employee's entire business time, good faith, best efforts, ability, skill and attention to Company's business, and (iii) follow and act in accordance with all of the rules, policies and procedures of Company, including but not limited to working hours, sales and promotion policies, and specific Company rules. Company further agrees that it shall not relocate its headquarters outside of the St. Louis metropolitan area during the term of this Agreement or otherwise during the term of this Agreement require Employee to relocate her residence outside of the St. Louis metropolitan area.

(c) "Company" means Build-A-Bear Workshop, Inc. or one of its Subsidiaries, whichever is Employee's employer. The term "Subsidiary" means any corporation, joint venture or other business organization in which Build-A-Bear Workshop, Inc. now or hereafter, directly or indirectly, owns or controls more than fifty percent (50%) interest.

2. Term of Employment. The term of this Agreement shall commence on the date first set forth above, and shall end on September 9, 2002, unless sooner terminated as provided in Section 4 hereof (the "Initial Term"). Following the Initial Term, this Agreement shall automatically renew for successive one-year periods (each a "Renewal Period"; collectively, the Initial Term and each Renewal Period, the "Employment Period"), unless sooner terminated as provided in Section 4 hereof.

3. Compensation.

(a) Signing Bonus. Company shall pay Employee a one-time signing bonus of Ten Thousand Dollars ($10,000) (the "Signing Bonus"), payable with the first installment of Employee's base salary.

(b) Base Salary. During the Employment Period, Company shall pay Employee as compensation for her services an annual base salary of not less than One Hundred Eighty-Five Thousand Dollars ($185,000), payable in accordance with Company's usual practices. Employee's annual base salary rate shall be reviewed by Company's Compensation Committee at least annually for increase following each fiscal year so that Employee's salary will be commensurate for similarly situated executives with firms similarly situated to Company; provided, however, that if Employee's individualized performance targets (set for each fiscal year by Employee and Employee's team leader) are achieved, Employee's annual base salary rate shall not be subject to decrease at any time during the Employment Period and shall be subject to annual increase by no less than the average percentage increase given to all other Company executive employees for such fiscal year (the "Average Increase"). Notwithstanding the foregoing, for the fiscal year ended December 31, 2001, the Average Increase shall be pro-rated so that Employee shall only be entitled to three-twelfths of her base salary increase, if any.

(c) Bonus. Should Company exceed its sales, profits and other objectives as set forth on EXHIBIT 3(c) attached hereto for the fiscal year beginning January 2, 2001 and ending

December 31, 2001, Employee shall receive a bonus for such fiscal year equal to 35% of Employee's actual annual Base Salary paid during such fiscal year, such bonus to be payable in cash, stock or stock options, or combinations thereof, as agreed to by the Board of Directors and Employee. Should Company exceed its sales, profits and other objectives as agreed upon between Employee and Board of Directors at the beginning of each calendar year for any fiscal year thereafter during the Employment Period, Employee shall be entitled to receive a bonus for such fiscal year equal to an amount agreed upon by Employee and the Board of Directors, such bonus to be payable in cash, stock or stock options, or combination thereof, as agreed to by the Board of Directors and Employee; provided that in no event shall such bonus be less than 35% of Employee's actual annual Base Salary paid during such fiscal year. In the event of termination of this Agreement because of Employee's death or disability (as defined by paragraph 4(b)), or pursuant to Employee's right to terminate this Agreement under paragraph 4, the bonus criteria shall not change and any bonus shall be pro-rated based on the number of full calendar weeks during the applicable fiscal year during which Employee was employed hereunder.

Such bonus, if any, shall be payable after Company's accountants have determined the sales and profits and have issued their audit report with respect thereto for the applicable fiscal year, which determination shall be binding on the parties. Any such bonus shall be paid within one hundred twenty (120) days after the end of each calendar year or thirty (30) days after the issuance of the auditor's report, whichever is later, regardless of Employee's employment status at the time payment is due. For the period after the fiscal year ending December 31, 2001, Employee's bonus shall be based upon Company exceeding sales and profit objectives as agreed upon between Employee and Board of Directors at the beginning of each calendar year. The objectives and formula for determining bonuses, once agreed upon, shall be put in writing and signed by Employee and Board of Directors

(d) Stock Options. Subject to approval by Company's Compensation Committee, an option to purchase 20,000 shares of Company's common stock, par value $.01 per share (the "Common Stock") at a purchase price per share equal to the per share fair market value (as determined by the Compensation Committee) of the Common Stock on the date such option is granted, will be granted to Employee, pursuant to the terms set forth more particularly in the Option Agreement (the "Option Agreement") used in connection with the Build-A-Bear Workshop, Inc. 2000 Stock Option Plan (the "Plan"). Subject to the terms of the Option Agreement and the Plan, it is intended that such option will vest in equal increments of 4,000 shares each over a period of five (5) years from the date of grant. It is also intended that such option will be granted pursuant to the Plan, and will be an incentive stock option. Future options to purchase the Common Stock may granted upon the recommendation of the Chief Executive Officer, in her discretion, and approval of the Compensation Committee.

(e) Relocation Expenses. Company shall reimburse Employee for the reasonable cost of the following relocation expenses: (i) transportation of all Employee's household goods via a national moving company from Employee's current home in New Jersey to St. Louis, Missouri; (ii) real estate commission expense up to seven percent (7%) on the sale price of Employee's current home in New Jersey; (iii) an amount equal to one (1) point of the purchase price upon closing of the purchase of Employee's new home in St. Louis, Missouri; (iv) transportation, lodging and meal expenses for a reasonable amount of househunting trips to St. Louis, Missouri for Employee and Employee's spouse; (v) temporary housing for Employee and Employee's spouse for a reasonable length of time until Employee can relocate to a permanent home in St. Louis, Missouri; (vi) during the period of time, if any, after Employee closes on a permanent home in St. Louis, Missouri but prior to Employee selling her home in New Jersey, the lesser of the payments on the permanent home in St. Louis or her home in New Jersey; and (vii) the amount of income taxes payable by Employee on the items listed in this Section 3(e) which are deemed taxable income (collectively, the "Relocation Expenses"). Employee will provide written back-up for such Relocation Expenses as Company may reasonably request.

(f) Discounts. Employee and her immediate family will be entitled to a 20% discount for all merchandise purchased at Company's stores.

(g) Vacation. After completing ninety (90) days of continuous service, Employee shall be entitled to fifteen (15) days per calendar year of paid vacation, and paid sick leave on the same basis as may from time to time apply to other Company executive employees generally. Vacations will be scheduled with the approval of Company's President and Chief Executive Officer, who may block out certain periods of time during which vacations may not be taken, including preceding Valentine's Day, preceding Easter, from November 1 through December 31, during Company inventory, and just prior to store openings. One-third of one year's vacation (or any part of it) may be carried over to the next year; provided that such carry over is used in the first calendar quarter of the next year. All unused vacation shall be forfeited. No more than two weeks of vacation can be taken at one time. After completing ninety (90) days of continuous service, Employee shall also be entitled to one (1) day per calendar year of paid vacation to be taken in the month of her birthday. After completing ninety (90) days of continuous service, if Employee finds that the amount of vacation and sick leave granted hereunder is inadequate to meet her needs, she may request additional leave from Company's President and Chief Executive Officer.

(h) Long-Term Disability. Employee shall qualify for all rights and benefits for which Employee may be eligible under Company's group long-term disability plan. In the event Company's group long-term disability plan is not in place at the beginning of the Employment Period, Company shall reimburse Employee for the reasonable cost of an individual long-term disability plan procured by Employee until such time as the group long-term disability plan is in place. In the event Company elects not to procure a group plan, Company shall procure an individual long-term disability plan for Employee or continue reimbursing Employee for the reasonable cost of her plan, as applicable.

(i) Other. Employee shall be eligible for such other perquisites as may from time to time be awarded to Employee by Company payable at such times and in such amounts as Company, in its sole discretion, may determine. All such compensation shall be subject to customary withholding taxes and other employment taxes as required with respect thereto. Employee shall also qualify for all rights and benefits for which Employee may be eligible under any benefit plans including group life, medical, health, dental and/or disability insurance or other benefits which are provided for employees generally at her then current location of employment. To the extent Employee is eligible for such coverage, Company shall reimburse Employee for the cost of COBRA coverage during the period, if any, between the termination of Employee's medical/health benefits at her previous employer and the beginning of Employee's coverage under Company's medical/health benefit plans.

4. Termination of Employment. Prior to the expiration of the Employment Period, this Agreement and Employee's employment may be terminated by Company as follows:

(a) Upon Employee's death;

(b) Upon thirty (30) day's prior written notice to Employee in the event Employee, by reason of permanent physical or mental disability (which shall be determined by a physician selected by Company or its insurers and acceptable to Employee or Employee's legal representative (such agreement as to acceptability not to be withheld unreasonably), shall be unable to perform the essential functions of her position, with or without reasonable accommodation, for three (3) consecutive months; provided, however, Employee shall not be terminated due to permanent physical or mental disability unless or until said disability also entitles Employee to benefits under such disability insurance policy as is provided to Employee by Company.

(c) For cause, which for the purposes of this Agreement shall mean: (i) Employee's engagement in any conduct which, in Company's reasonable determination, constitutes gross misconduct, or is illegal, unethical, improper or which otherwise brings detrimental notoriety or material harm to Company; (ii) gross negligence or willful misconduct; (iii) conviction of fraud or theft; (iv) a material breach of a material provision of this Agreement by Employee, or (v) failure of Employee to follow a written directive of the Chief Executive Officer or the Board of Directors within thirty (30) days after receiving such notice, provided that such directive is reasonable in scope or is otherwise within the Chief Executive Officer's or the Board's reasonable business judgment, and is reasonably within Employee's control.

In addition, Employee's employment may be terminated by Employee in the event of a material breach of a material provision of this Agreement by Company, provided Company does not cure said breach within thirty (30) days after Employee provides the Board of Directors with written notice of the breach.

Upon termination of this Agreement, all rights and obligations of the parties hereunder shall cease, except termination of employment pursuant to this Section 4 or otherwise shall not terminate or otherwise affect the rights and obligations of the parties pursuant to Sections 5 through 13 hereof; provided, however, should Company terminate Employee's employment for any reason other than matters set forth in Section 4(b) or 4(c) of this Agreement during the period ending September 9, 2002, Company shall continue her base salary until the earlier of September 9, 2002 or such time as Employee has obtained other employment; and, provided, further, should Employee voluntarily resign or should Company terminate Employee's employment pursuant to Section 4(c) of this Agreement during the period ending September 9, 2002, Employee shall repay the Signing Bonus in full and a pro-rata portion of the Relocation Expenses. Employee shall accept these payments in full discharge of all obligations of any kind which Company has to her except obligations, if any, to repurchase any capital stock of Company owned by Employee.

5. Confidential Information.

(a) Employee agrees to keep secret and confidential, and not to use or disclose to any third parties, except as directly required for Employee to perform Employee's employment responsibilities for Company, any of Company's proprietary Confidential Information.

(b) Employee acknowledges and confirms that certain data and other information (whether in human or machine readable form) that comes into her possession or knowledge (whether before or after the date of this Agreement) and which was obtained from Company, or obtained by Employee for or on behalf of Company, and which is identified herein (the "Confidential Information") is the secret, confidential property of Company. This Confidential Information includes, but is not limited to:

(1) lists or other identification of customers or prospective customers of Company (and key individuals employed or engaged by such parties);

(2) lists or other identification of sources or prospective sources of Company's products or components thereof (and key individuals employed or engaged by such parties);

(3) all compilations of information, correspondence, designs, drawings, files, formulae, lists, machines, maps, methods, models, notes or other writings, plans, records and reports;

(4) financial, sales and marketing data relating to Company or to the industry or other areas pertaining to Company's activities and contemplated activities (including, without limitation, manufacturing, transportation, distribution and sales costs and non-public pricing information);

(5) equipment, materials, procedures, processes, and techniques used in, or related to, the development, manufacture, assembly, fabrication or other production and quality control of Company's products and services;

(6) Company's relations with its customers, prospective customers, suppliers and prospective suppliers and the nature and type of products or services rendered to such customers (or proposed to be rendered to prospective customers);

(7) Company's relations with its employees (including, without limitation, salaries, job classifications and skill levels); and

(8) any other information designated by Company to be confidential, secret and/or proprietary (including without limitation, information provided by customers or suppliers of Company).

Notwithstanding the foregoing, the term Confidential Information shall not consist of any data or other information which has been made publicly available or otherwise placed in the public domain other than by Employee in violation of this Agreement.

(c) During the Employment Period, Employee will not copy, reproduce or otherwise duplicate, record, abstract, summarize or otherwise use, any papers, records, reports, studies, computer printouts, equipment, tools or other property owned by Company except as expressly permitted by Company in writing or required for the proper performance of her duties on behalf of Company.

6. Post-Termination Restrictions. Employee recognizes that (i) Company has spent substantial money, time and effort over the years in developing and solidifying its relationships with its customers and suppliers and in developing its Confidential Information; (ii) long-term customer relationships often can be difficult to develop and require a significant investment of time, effort and expense; (iii) Company has paid its employees to, among other things, develop and preserve business information, customer goodwill, customer loyalty and customer contacts for and on behalf of Company; and (iv) Company is hereby agreeing to employ and pay Employee based upon Employee's assurances and promises not to divert goodwill of customers or suppliers of Company, either individually or on a combined basis, or to put herself in a position following Employee's employment with Company in which the confidentiality of Company's Confidential Information might somehow be compromised. Accordingly, Employee agrees that during the Employment Period and for the period of time set forth below following termination of employment, provided termination is in accordance with the terms of paragraph 4(b) or (c) or due to expiration of the Employment Period, Employee will not, directly or indirectly (whether as owner, partner, consultant, employee or otherwise):

(a) for three (3) years, engage in, assist or have an interest in, or enter the employment of or act as an agent, advisor or consultant for, any person or entity which is engaged in, or will be engaged in, the development, manufacture, supplying or sale of a product, process, service or development which is competitive with a product, process, service or development on which Employee worked or with respect to which Employee has or had access to Confidential Information while at Company ("Restricted Activity"), and which is located within 100 miles of any Company retail store;

(b) for three (3) years, solicit, call on or provide any Restricted Activity to any customer or active prospective customer of Company which was a customer or supplier of Company at any time during the most recent twelve (12) months of Employee's employment by Company, or cause or attempt to cause such a person to divert, terminate, limit, modify or fail to enter into any existing or potential relationship with Company; or

(c) for three (3) years, induce or attempt to induce any employee, consultant or advisor of Company to accept employment or an affiliation involving Restricted Activity;

provided, however, that following termination of her employment, Employee shall be entitled to be an employee of an entity that engages in Restricted Activity so long as: (i) the sale of stuffed animals is not a principal business of the entity; (ii) Employee has no direct or personal involvement in the sale of stuffed animals; and (iii) neither Employee, her relatives, nor any other entities with which she is affiliated own more than 1% of the entity. As used in this paragraph 6, "principal business" shall mean that greater than 10% of revenues received during the twelve (12) months preceding a dispute under this paragraph 6 were derived from the sale of stuffed animals and related products, or otherwise derives revenues from a retail concept that is similar in any material regard to Company.

7. Acknowledgment Regarding Restrictions. Employee recognizes and agrees that the restraints contained in Section 6 (both separately and in total) are reasonable and enforceable in view of Company's legitimate interests in protecting its Confidential Information and customer goodwill and the limited scope of the restrictions in Section 6.

8. Inventions.

Any and all ideas, inventions, discoveries, patents, patent applications, continuation-in-part patent applications, divisional patent applications, technology, copyrights, derivative works, trademarks, service marks, improvements, trade secrets and the like (collectively, "Inventions"), which are developed, conceived, created, discovered, learned, produced and/or otherwise generated by Employee, whether individually or otherwise, during the time that Employee is employed by Company, whether or not during working hours, that relate to (i) current and anticipated businesses and/or activities of Company, (ii) the current and anticipated research or development of Company, or (iii) any work performed by Employee for Company, shall be the sole and exclusive property of Company, and Company shall own any and all right, title and interest to such Inventions. Employee assigns, and agrees to assign to Company whenever so requested by Company, any and all right, title and interest in and to any such Invention, at Company's expense, and Employee agrees to execute any and all applications, assignments or other instruments which Company deems desirable or necessary to protect such interests, at Company's expense.

9. Company Property. Employee acknowledges that any and all notes, records, sketches, computer diskettes, training materials and other documents relating to Company obtained by or provided to Employee, or otherwise made, produced or compiled during the Employment Period, regardless of the type of medium in which they are preserved, are the sole and exclusive property of Company and shall be surrendered to Company upon Employee's termination of employment and on demand at any time by Company.

10. Non-Waiver of Rights. Either party's failure to enforce at any time any of the provisions of this Agreement or to require at any time performance by the other party of any of the provisions hereof shall in no way be construed to be a waiver of such provisions or to affect either the validity of this Agreement, or any part hereof, or the right of the non-breaching party thereafter to enforce each and every provision in accordance with the terms of this Agreement.

11. Company's Right to Injunctive Relief. In the event of a breach or threatened breach of any of Employee's duties and obligations under the terms and provisions of Sections 5, 6, or 8 hereof, Company shall be entitled, in addition to any other legal or equitable remedies it may have in connection therewith (including any right to damages that it may suffer), to temporary, preliminary and permanent injunctive relief restraining such breach or threatened breach. Employee hereby expressly acknowledges that the harm which might result to Company's business as a result of any noncompliance by Employee with any of the provisions of Sections 5, 6 or 8 would be largely irreparable. Employee specifically agrees that if there is a question as to the enforceability of any of the provisions of Sections 5, 6 or 8 hereof, Employee will not engage in any conduct inconsistent with or contrary to such Sections until after the question has been resolved by a final judgment of a court of competent jurisdiction.

12. Judicial Enforcement. If any provision of this Agreement is adjudicated to be invalid or unenforceable under applicable law in any jurisdiction, the validity or enforceability of the remaining provisions thereof shall be unaffected as to such jurisdiction and such adjudication shall not affect the validity or enforceability of such provisions in any other jurisdiction. To the extent that any provision of this Agreement is adjudicated to be invalid or unenforceable because it is overbroad, that provision shall not be void but rather shall be limited only to the extent required by applicable law and enforced as so limited. The parties expressly acknowledge and agree that this Section is reasonable in view of the parties' respective interests.

13. Employee Representations. Employee represents that the execution and delivery of the Agreement and Employee's employment with Company do not violate any previous employment agreement or other contractual obligation of Employee.

14. Amendments. No modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing specifically referring hereto, and signed by the parties hereto. This Agreement supersedes all prior agreements and understandings between Employee and Company to the extent that any such agreements or understandings conflict with the terms of this Agreement.

15. Assignments. This Agreement shall be freely assignable by Company to and shall inure to the benefit of, and be binding upon, Company, its successors and assigns and/or any other entity which shall succeed to the business presently being conducted by Company. Being a contract for personal services, neither this Agreement nor any rights hereunder shall be assigned by Employee.

16. Choice of Forum and Governing Law. In light of Company's substantial contacts with the State of Missouri, the parties' interests in ensuring that disputes regarding the interpretation, validity and enforceability of this Agreement are resolved on a uniform basis, and Company's execution of, and the making of, this Agreement in Missouri, the parties agree that: (i) any litigation involving any noncompliance with or breach of the Agreement, or regarding the interpretation, validity and/or enforceability of the Agreement, shall be filed and conducted in the state or federal courts in St. Louis City or County, Missouri; and (ii) the Agreement shall be

interpreted in accordance with and governed by the laws of the State of Missouri, without regard for any conflict of law principles.

17. ARBITRATION. ANY CONTROVERSY OR CLAIM ARISING OUT OF, OR RELATING TO THIS AGREEMENT, THE BREACH THEREOF, OR EMPLOYEE'S EMPLOYMENT BY COMPANY, SHALL, AT COMPANY'S SOLE OPTION, BE SETTLED BY BINDING ARBITRATION IN THE COUNTY OF ST. LOUIS IN ACCORDANCE WITH THE RULES THEN IN FORCE OF THE AMERICAN ARBITRATION ASSOCIATION, AND JUDGMENT UPON THE AWARD RENDERED MAY BE ENTERED AND ENFORCED IN ANY COURT HAVING JURISDICTION THEREOF. THE CONTROVERSIES OR CLAIMS SUBJECT TO ARBITRATION AT COMPANY'S OPTION UNDER THIS AGREEMENT INCLUDE, WITHOUT LIMITATION, THOSE ARISING UNDER TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, 42 U.S.C. SECTION 1981, THE AGE DISCRIMINATION IN EMPLOYMENT ACT, THE AMERICANS WITH DISABILITIES ACT, THE FAMILY AND MEDICAL LEAVE ACT, THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, THE MISSOURI HUMAN RIGHTS ACT, LOCAL LAWS GOVERNING EMPLOYMENT, AND THE STATUTORY AND/OR COMMON LAW OF CONTRACT AND TORT. IN THE EVENT EMPLOYEE COMMENCES ANY ACTION IN COURT WHICH COMPANY HAS THE RIGHT TO SUBMIT TO BINDING ARBITRATION, COMPANY SHALL HAVE SIXTY (60) DAYS FROM THE DATE OF SERVE OF A SUMMONS AND COMPLAINT UPON COMPANY TO DIRECT IN WRITING THAT ALL OR ANY PART OF THE DISPUTE BE ARBITRATED. ANY REMEDY AVAILABLE IN ANY COURT ACTION SHALL ALSO BE AVAILABLE IN ARBITRATION.

18. Headings. Section headings are provided in this Agreement for convenience only and shall not be deemed to substantively alter the content of such sections.

[SIGNATURE PAGE FOLLOWS]

PLEASE NOTE: BY SIGNING THIS AGREEMENT, EMPLOYEE IS HEREBY CERTIFYING THAT EMPLOYEE (A) HAS RECEIVED A COPY OF THIS AGREEMENT FOR REVIEW AND STUDY BEFORE EXECUTING IT; (B) HAS READ THIS AGREEMENT CAREFULLY BEFORE SIGNING IT; (C) HAS HAD SUFFICIENT OPPORTUNITY BEFORE SIGNING THE AGREEMENT TO ASK ANY QUESTIONS EMPLOYEE HAS ABOUT THE AGREEMENT AND HAS RECEIVED SATISFACTORY ANSWERS TO ALL SUCH QUESTIONS; AND (D) UNDERSTANDS EMPLOYEE'S RIGHTS AND OBLIGATIONS UNDER THE AGREEMENT.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY COMPANY.

/s/ Teresa Kroll

Teresa Kroll

Address: #4 Ivy Lane
Manalapan, New Jersey 07726

BUILD-A-BEAR WORKSHOP, INC.

By: /s/ Maxine Clark

Name: Maxine Clark
Title: President

EXHIBIT 3(c)

The goals and objectives for Employee shall be mutually agreed upon by Employee and the Compensation Committee at the first Compensation Committee meeting after the date of this Agreement.

EXHIBIT 10.34

EXCLUSIVE PATENT LICENSE AGREEMENT

This Agreement made as of the 12th day of March, 2001 by and between Tonyco, Inc., a corporation duly organized and existing under the laws of the state of Michigan, having its principal place of business at 181 West Marshall, Ferndale, Michigan 48220 (hereinafter referred to as "Tonyco") and Build-A-Bear Workshop, Inc., a corporation duly organized and existing under the laws of the state of Delaware, having its principal place of business at 1954 Innerbelt Business Center Drive, St. Louis, MO 63114 (hereinafter referred to as "Build-A-Bear").

RECITALS

WHEREAS, Tonyco is the owner by assignment of U.S. Patent No. 6,109,196 entitled METHOD OF CLOSING A STUFFED TOY AFTER STUFFING;

WHEREAS, Build-A-Bear is, among other things, in the business of providing goods and services wherein a customer selects a skin/shell toy for stuffing via a multitude of different retail venues such as in a store environment, via catalogs, over the internet, or other related venues and the toy is thereafter stuffed and closed in the retail environment or by the customer at home or elsewhere;

WHEREAS, Tonyco has charged Build-A-Bear with infringement of U.S. Patent No. 6,109,196;

WHEREAS, Tonyco and Build-A-Bear are desirous of settling the infringement issue between them relating to U.S. Patent No. 6,109,196 and, as a result thereof, Build-A-Bear is desirous of obtaining an exclusive license within a field of use defined hereafter under U.S. Patent No. 6,109,196 and under any other divisional, continuation, continuation-in-part, reissued, or re-examined applications based upon U.S. Patent No. 6,109,196 and any patents that may result therefrom, including any foreign patents corresponding thereto and any extensions or additions thereof and Tonyco is willing to grant to Build-A-Bear such a license on the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the mutual premises and covenants contained herein, the parties agree as follows:

ARTICLE I. DEFINITIONS

For the purposes of this Agreement, unless the context clearly or necessarily requires otherwise, the following terms shall have the meaning set forth below:

1.1 "Parties" shall mean both Tonyco and Build-A-Bear, and the "Party" shall mean either of them.

1.2 "Licensed Patent" shall mean U.S. Patent No. 6,109,196 entitled METHOD OF CLOSING A STUFFED TOY. AFTER STUFFING" and any foreign patents or foreign patent applications corresponding thereto, any continuations, continuations-in-part, divisionals, reissues, re-examinations, extensions or additions thereof, and any improvements thereto.

1.3 "Licensed Method" shall mean any method or part thereof, the manufacture, use, sale, offer for sale, or importation of which is covered by one or more valid claims of the Licensed Patent.

1.4 "Licensed Field of Use" shall mean any use of the Licensed Method in retail stores or other Retail Venues wherein the consumer selects the skin/shell toy for stuffing and the toy is thereafter stuffed and closed in accordance with the Licensed Method in the retail environment. Licensed Field of Use will also include a kit including a skin/shell toy for stuffing where said kit is provided in a retail store or otherwise sold or provided to a consumer. Sales of any plurality of unstuffed skin/shells alone or in kit form, to a single customer, in a retail store or other Retail Venue, shall fall within the Licensed Field of Use. Bulk sales of unstuffed skin/shells alone or in kit form to retailers, jobbers and wholesalers for stuffing by those parties for resale in stuffed form shall not fall within the Licensed Field of Use.

1.5 "Retail Venue(s)" shall mean, but is not limited to, any location or medium for selecting a skin/shell toy for stuffing including phone orders, mail order, catalogs, on-line/internet/websites, kiosks, discount chains, buying parties, buying clubs, direct marketing, door-to-door sales and the like.

1.6 "Territory" shall mean worldwide.

1.7 "Improvement" shall mean any new, improved or modified method or process relating to the Licensed Method.

ARTICLE 2. GRANT OF LICENSE

2.1 Tonyco hereby grants to Build-A-Bear an exclusive license, for an initial term of three (3) years and with an option to extend this exclusive license as set forth in Article 4 below, with the right to sublicense, to manufacture, have manufactured on its behalf, use, sell and offer to sell under the Licensed Patent the Licensed Method in the Territory within the Licensed Field of Use. Tonyco shall not grant other licenses under the Licensed Patent within the Licensed Field of Use. Build-A-Bear shall advise Tonyco in writing of the grant of any sublicense under the Licensed Patent and shall provide Tonyco with a copy of any such license.

2.2 Tonyco hereby retains the right to grant other licenses outside of the Licensed Field of Use granted to Build-A-Bear. However, in this regard, Tonyco further agrees that it will not grant any rights to any other licensees under the Licensed Patent for use outside of the Licensed Field of Use granted to Build-A-Bear which will allow such licensees to directly or indirectly sell or otherwise provide pre-laced unstuffed skin/shell toys made in accordance with the teachings of the Licensed Patent to competitors of Build-A-Bear or to anyone or any entity who will complete or allow completion of the stuffing process in a retail store or other Retail Venue pursuant to the Licensed Method (hereinafter collectively "Retail Operator") or to anyone or entity who in turn will sell or distribute such products to another party or parties in the chain of distribution that will ultimately result in sale or distribution to a Retail Operator. Tonyco will not grant rights to such licensees which would allow them to directly or indirectly sell or otherwise provide pre-laced unstuffed skin/shell toys in kit form for ultimate purchase by consumers. Tonyco further agrees that it will not sell unstuffed skin/shell toys alone or in kit form to retailers.

ARTICLES. CONSIDERATION

3.1 In consideration of the rights and license granted to Build-A-Bear by Tonyco under this Agreement, Build-A-Bear agrees to pay Tonyco a total sum of seven-hundred fifty-thousand dollars ($750,000) as follows:

3.1.1 Within ten (10) days from the execution of this Agreement, at least two-hundred fifty-thousand dollars ($250,000) of such total sum;

3.1.2 Within one (1) year from the execution of this Agreement, at least two-hundred fifty-thousand dollars ($250,000), or the remaining balance, of such total sum; and

3.1.3 Within two (2) years from the execution of this Agreement, the remaining balance of such total sum, if any.

3.2 Build-A-Bear agrees that each payment provided in paragraphs 3.1.2 and 3.1.3 above shall include interest on the unpaid balance of the total sum due at the rate of ten percent (10%) per year simple interest until the total amount of seven-hundred fifty-thousand dollars ($750,000) has been paid.

3.3 Build-A-Bear has the right to accelerate payments and pay off the total amount due, including interest, at any time within the payment period.

ARTICLE 4. OPTION TO EXTEND EXCLUSIVE LICENSE

4.1 Subject to the terms and conditions of this agreement, Tonyco hereby grants to Build-A-Bear an option to extend this exclusive license subject to the conditions of Article 2 above for the full life of the Licensed Patent or any improvements thereof. Build-A-Bear may exercise this option by providing Tonyco with written notice thereof within one (1) year from the date of payment made pursuant to Article 3.1.3 (the "Option Term"). Any such license shall be subject to all of the terms and conditions of this Agreement except for the terms and conditions set forth in Article 3.

4.2 In consideration of the rights and license granted under the option, Build-A-Bear agrees to pay Tonyco an additional sum of $10,000 in exchange for such extension of this license, such payment to accompany the written notice to Tonyco exercising this option. The exercise of this option shall be at the sole discretion of Build-A-Bear.

ARTICLES. IMPROVEMENTS

5.1 Tonyco may from time to time make and/or acquire improvements to the methods or processes described in the Licensed Patent, Any such improvements will be disclosed to Build-A-Bear and shall be included herein as pan of the license grant without any other compensation on the part of Build-A-Bear.

ARTICLE 6. LIMITED WARRANTY

6.1 Tonyco represents and warrants as follows:

6.1.1 That Tonyco is the sole and exclusive owner of the entire right, title and interest in and to the Licensed Patent and that Tonyco has full legal right, authority and power to enter into this Agreement and to grant the exclusive paid up license to Build-A-Bear as set forth herein;

6.1.2 That Tonyco is not aware of any existing or threatened litigation concerning the Licensed Patent;

6.1.3 That Tonyco has not granted any licenses under the Licensed Patent within the Licensed Field of Use or elsewhere that would be in conflict with the rights granted in this Agreement; and

6.1.4 That to the best knowledge of Tonyco the Licensed Patent is valid and enforceable.

6.2 Build-A-Bear represents and warrants as follows:

6.2.1 That Builder-A-Bear has the full legal right, authority and power to enter into this Agreement;

6.2.2 That Build-A-Bear will cooperate with Tonyco for the protection of its rights in the Licensed Patent and will furnish Tonyco with any information that it may require, within reason, in protecting the Licensed Patent.

6.3 All warranties will survive termination of this Agreement.

ARTICLE 7. INDEMNIFICATION BY TONYCO

7.1 Tonyco shall defend, indemnify and hold harmless Build-A-Bear and their respective directors, officers, employees, agents, successors and assigns (each an "indemnitee") from and against any and all claims, damages, losses and expenses suffered or incurred by any such indemnitee arising from, relating to or otherwise in respect of any breach of any representation or warranty of Tonyco set forth above in Article 6.1 hereof.

7.2 If a claim of infringement by a third party is made against an Indemnitee hereunder based upon use of the Licensed Method set forth in the Licensed Patent, the reasonable costs of defending such infringement action shall be borne equally by the Parties hereto. The parties agree to cooperate with each other to bring any such third party suit to a successful conclusion. The parties shall have the right to be represented in any such suit by counsel of their own selection and no settlement agreement will be entered into without the mutual consent of the parties.

ARTICLES. INFRINGEMENT

8.1 In the event that Build-A-Bear has reason to believe that a third party is infringing upon the Licensed Patent, Build-A-Bear will promptly notify Tonyco in writing of such alleged infringement In the event that Tonyco has reason to believe that a third party is infringing upon the Licensed Patent and that the infringement could have an adverse impact on Build-A-Bear's use of the Licensed Method in the Licensed Field of Use, Tonyco will promptly notify Build-A-Bear in writing of such alleged infringement. If a third party alleges or asserts that one or more claims of the Licensed Patent is invalid, this event shall be deemed to potentially impact Build-A-Bear's use of the Licensed Method within the Licensed Field of Use and Tonyco will promptly notify Build-A-Bear in writing of such event.

8.2 After notification as set forth above in Article 8.1 or after Tonyco otherwise learns of a potential infringement, Tonyco will investigate such third party infringement and will obtain sufficient facts and information concerning the same in sufficient detail to permit a complete infringement determination to be made. If such third party is infringing the Licensed Patent, Tonyco will, at its own expense, endeavor to abate such infringement. In this regard, Tonyco will provide Build-A-Bear with copies of all correspondence relating to its efforts to abate such infringement.

8.3 In the event that Tonyco is unable to terminate such infringement within a reasonable period of time, Tonyco shall have the right to commence a patent infringement action against such infringer at its own expense and will retain any recovery from such litigation. In this regard, Build-A-Bear agrees to cooperate with Tonyco to bring any such suit to a successful conclusion. Tonyco will consult with Build-A-Bear throughout the litigation as to its course of action with respect thereto and will not enter into any settlement agreement with any third party without first obtaining the mutual consent of Build-A-Bear to such settlement agreement. In the event that Tonyco determines that such third party is infringing the Licensed Patent but chooses not to commence a patent infringement action against such infringer, Build-A-Bear shall have the right to bring suit at its. own expense to terminate such infringement. Tonyco agrees to join such suit as a party plaintiff and to cooperate with Build-A-Bear, at its own expense, in connection with the conduct of such litigation. Build-A-Bear shall retain all recovery from such litigation.

8.4 Build-A-Bear shall have the right to be represented in any such action which will affect or impact its use of the Licensed Method within the Licensed Field of Use by counsel of its own selection and at its own expense.

ARTICLE 9. INVALIDITY FINDING

9.1 If, during the payment period set forth above in Article 3, as a result of any litigation or re-examination or reissue proceeding involving the Licensed Patent, claim 1 of the Licensed Patent is declared to be finally invalid, no further payments of any remaining balance due on the total sum set forth in Article 3 shall become due and payable to Tonyco as a result of such finding of invalidity. Claim 1 will be considered finally invalid at such time as no further appeal is possible within the U.S. Patent and Trademark Office or the U.S. Courts from the decision, judgement or decree of invalidity.

ARTICLE 10. PATENT MAINTENANCE FEES

10.1 Tonyco hereby agrees that it will pay all maintenance taxes and fees for the Licensed Patent as they come due, throughout the entire term of the Licensed Patent. If the Licensed Patent is allowed to lapse due to the non-payment of a particular maintenance fee, Tonyco further agrees that Build-A-Bear will be entitled to reimbursement of a pro-rata share of its seven-hundred fifty-thousand dollar ($750,000) payment based upon the following schedule:

Failure to Pay Maintenance Fee	Amount Recoverable
(1) 3 1/2 year maintenance fee	$583,300
(2) 7 1/2 year maintenance fee	$416,700
(3) 11 1/2 year maintenance fee	$250,000

10.2 Payment of the reimbursable amount will be on terms and conditions mutually agreeable to the Parties hereto.

ARTICLE 11. TERM AND TERMINATION

11.1 Unless otherwise terminated earlier as provided herein, the term of this Agreement shall commence on the effective date of this Agreement and extend for a period of three years from the effective date of this Agreement. Upon exercising the option set forth in Article 4 above during the Option Term, the term of this Agreement shall be extended for the life of the Licensed Patent or any improvement thereon.

11.2 Notwithstanding any other provisions herein to the contrary, this Agreement may be terminated by either party upon written notice to the other party in the event that any one of the following conditions occurs:

11.2.1 If Build-A-Bear fails to meet its payment obligations pursuant to Article 3 above and such failure to pay is not remedied within a period of thirty (30) days after written notice is given by Tonyco;

11.2.2 If the Licensed Patent lapses due to non-payment of a maintenance fee pursuant to Article 10 above;

11.2.3 If claim 1 of the Licensed Patent is declared invalid during the payment period.

11.2.4 At the end of three (3) years from the effective date of this Agreement if the option set forth in Article 4 is not exercised.

ARTICLE 12. ASSIGNMENT

12.1 Either party may assign this Agreement to a third party acquiring substantially the entire business or substantially all of the assets of a party hereto to which this Agreement pertains. In such event, this Agreement will be binding upon and inure to the benefit of all of the panics and their respective successors and legal assigns. Tonyco agrees not to assign this Agreement to any competitor of Build-A-Bear. The party so assigning shall notify the other party in writing of such assignment.

ARTICLE 13. GOVERNING LAW

13.1 This Agreement shall be governed by and construed in accordance with the laws of the State of Missouri.

ARTICLE 14. NOTICES

14.1 All notices and other communications hereunder shall be in writing and sent by facsimile with confirmation sent by courier requiring acknowledgement of receipt by the respective parties as follows:

14.1.1 To Tonyco: Tonyco, Inc.
181 West Marshall Ferndale, MI 48220
Attention: Mr. Dennis Silber
Telephone:
Facsimile:

With a Copy To: Allen M. Krass, Esq.
Gifford, Krass, Groh, Sprinkle,
Anderson & Citkowski, P.C.
250 N. Old Woodward Avenue, Suite 400
Birmingham, MI 48009-5394
Telephone:
Facsimile: (248)647-5210

14.1.2 To Build-A-Bear: Build-A-Bear Workshop, Inc.
1954 Innerbelt Business Center Drive
St. Louis, MO 63114
Attention: Maxine Clark
Telephone: (314)423-8000
Facsimile: (314)423-8188

With a Copy To: Samuel Digirolamo, Esq.
Blackwell Sanders Peper Martin LLP
720 Olive Street, 24th Floor
St. Louis, MO 63101
Telephone: (314)345-6225
Facsimile: (314)345-6060

14.2 Either party may change the registered address to which such notices shall be sent by giving written notice to the other party.

ARTICLE 15. MISCELLANEOUS

15.1 This Agreement contains the entire agreement of the parties concerning the subject matter hereof and supercedes all prior written and oral agreements, understandings and negotiations with regard to the subject matter contained therein.

15.2 This Agreement, including this provision, may not be amended without a written instrument signed by duly authorized representatives of both parties.

15.3 If any of the provisions of this Agreement shall be found to be invalid or unenforceable, such invalidity or unenforceability shall not invalid or render unenforceable the entire agreement, but rather the entire agreement shall be construed as if not containing the particular invalid or unenforceable provision or provisions, and the rights and obligations of the party shall be construed and enforced accordingly.

15.4 IN WITNESS WHEREOF, THE PARTIES HERETO HAVE DULY EXECUTED THE FOREGOING AGREEMENT AS OF THE DAY AND YEAR FIRST WRITTEN ABOVE.

Build-A-Bear Workshop, Inc.	Tonyco, Inc.
By: /s/ Maxine Clark	By: /s/ Anthony C. Silber
Name: Maxine Clark	Name: Anthony C. Silber
Title: President	Title: President
Date: 3/12/01	Date: 3/15/01

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the use of our report included herein and to the reference to our firm under the heading "Experts" in the prospectus.

As discussed in Note 2(q) to the consolidated financial statements, the Company adopted Emerging Issues Task Force Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share.

/s/ KPMG LLP
St. Louis, Missouri
September 20, 2004

John G. Shively
Direct: 314-259-2682
jgshively@bryancave.com

CONFIDENTIAL TREATMENT REQUESTED BY
BUILD-A-BEAR WORKSHOP, INC.

September 20, 2004

Via Edgar And By Courier

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Attention: H. Christopher Owings, Assistant Director
Division of Corporate Finance

Re: Build-A-Bear Workshop, Inc.
Registration Statement on Form S-1
File Number 333-118142 (the "Registration Statement")

Dear Mr. Owings:

We are writing this letter on behalf of Build-A-Bear Workshop, Inc., a Delaware corporation ("BABW" or the "Company"), in response to the comment letter of the staff of the Division of Corporation Finance of the Securities and Exchange Commission dated September 10, 2004 regarding the above-captioned Registration Statement. Transmitted via EDGAR for filing herewith under the Securities Act of 1933 is Amendment No. 2 to the Registration Statement, with certain exhibits. Amendment No. 2 includes changes made to the Registration Statement in response to your comment letter.

This letter sets forth each comment of the staff in the comment letter in italics and, following each comment, the Company's response to such comment, including the location of any related disclosure in Amendment No. 2.

* * *

Graphics — Inside Front Cover Page

General

1. *Please note that when you file a pre-effective amendment containing pricing-related information, we may have additional comments. Also, please confirm that any preliminary prospectus that you circulate will disclose all non-Rule 430A information, including the price range and related information based on a bona fide estimate of the public offering price within that range.*

The Company will include all non-Rule 430A information in any preliminary prospectus that it circulates.

2. *File as promptly as practicable all exhibits, particularly the legality opinion, as we will review them prior to granting effectiveness of the registration statement. We may have further comments upon review of the exhibits.*

Substantially all exhibits that are currently available have been filed with Amendment No. 2. Any exhibits still outstanding will be filed in a later amendment.

3. *Please revise the text for the photographs to clarify what each picture represents and its relationship to your products. For example, explain that the photograph of the teddy bear in the parade is a Build-A-Bear teddy bear.*

The photographs have been revised to include text clarifying what each picture represents to the Company's business and how the pictures relate to the Company's products. As discussed with the staff, the Company only added captions to the pictures of the stores, the parade and the other events and not the pictures of the bear building stations in the Company's stores or the examples of the Company's stuffed animals.

4. *Substitute the word "customers" for "Guests" throughout the prospectus so that readers do not misunderstand what is meant.*

The word "guests" rather than "customers" has been used throughout the prospectus to communicate the fact that the Company is not a traditional retailer. The factor that sets the Company's business apart, and upon which it believes its success is based, is the entertainment experience associated with its stores. Accordingly, the Company considers its business to be comparable to a theme park or movie theater rather than to a traditional retail store. Use of the term "guests" is intended to reinforce this distinction. In order to reinforce this entertainment philosophy among its employees, suppliers, customers and vendors, the Company uses the term "guest" rather than customer in its internal and external communications, including signage, store displays and marketing materials. Similarly, the Company refers to its employees as "Bear Builder℠ associates" and "Bearitory Leaders" and its officers as executive "Bears" and makes extensive use of other Bearisms™.

The Company believes that this entertainment philosophy is recognized by the people who come to a Build-A-Bear Workshop store. For example, based on the use of the term "guest" in correspondence the Company receives, the Company believes that its clientele see themselves as "guests" rather than mere customers. The Company believes its experience-driven customer focus is an important factor in its performance. In surveys, many of the Company's guests offer that their experience in the Company's stores is even more important than the actual product. As such, the

Company builds its policies and procedures, as well as its rewards and recognition, to support this concept. While other retail concepts emphasize customer service, the Company delivers a guest experience.

The Company also believes that use of "guests" rather than "customers" is common, both in business practice and in filings with the Commission, by entertainment and retail companies. The table below indicates companies that have used the term "guest" to describe clientele, the document in which the term was used and the company's type of business. The Company believes the use of the term "guests" to describe its clientele is even more appropriate for its business concept, which relies on the entertainment experience, than for the retail companies listed below, which include traditional retail businesses.

Company	Business	Filings using "Guest"	Use of Term
Target Corporation	Mass Market Retail	Periodic reports; current reports; prospectus	"guest-friendly stores"; "superior guest service"; "team members, guests and community"; "guest database"; "qualified guests"; "relationship with our guests"
Toys R' Us, Inc.	Retail	Prospectus; periodic reports	"guest service"; "guests' demands"; "experience of our guests"; "concentrate on guest service"; "guest service"; "experience for our guest"
Linens N Things, Inc.	Retail	Prospectus; periodic reports	"guest-friendly service"; "our target customer, or guest"; "providing our guests"; "guest loyalty"; "guest service"
Red Robin Gourmet Burgers, Inc.	Restaurant	Prospectus; periodic reports	"our guests"; "broad range of guests"; "attract guests"; "guest counts"; "guest traffic"; "guest check"; "guest counts"
Cedar Fair L.P.	Amusement Park Operator	Prospectus; periodic reports	"guest per capita spending"; "overall guest experience"; "guest attendance"; "guests of all ages"
Six Flags, Inc.	Amusement Park Operator	Prospectus; periodic reports	"guest services"; "paying guests"; "enhance guest services"
Premier Entertainment Biloxi, LLC	Casino; Resort	Prospectus	"offer our guests an exciting entertainment experience"; "sufficient number of guests"; "offer our guests"
Buffets Holdings, Inc.	Restaurant	Prospectus	"our guests' dining experience"; "attract and retain guests"
Buffalo Wild Wings, Inc.	Restaurant	Prospectus; periodic reports	"guests may choose"; "enable guests to customize their dining experience"; "attract guests"; "our guests' ability";
Royal Caribbean Cruises Ltd.	Cruise Ships	Prospectus; periodic reports	"guest satisfaction"; "staff-to-guest ratio" ; "guest data"; "cruise guests"; "competition for guests"; "multiple choices to its guests";

Company	Business	Filings using "Guest"	Use of Term
The Walt Disney Co.	Amusement Park Operator	Periodic reports	"takes guests into the worlds of cinema"; "providing guests with ocean views"; "challenging guests"; "mix of local guests";

For the foregoing reasons, the Company does not believe it is appropriate to replace the term "guests" in the prospectus with "customers." However, the Company has lower-cased the term throughout the prospectus in light of plain-English considerations.

5. *Provide us with the industry publications from which you have obtained statistical data, and to which you refer on page 87. Mark the data you provide and key it to the statistics you have presented in the Business section.*

Please see the enclosed binder labeled "Industry Data." This binder contains the pages of the Business section on which the Company refers to third-party statistical data with cross references to the publications from which the Company obtained the third-party statistical data. Pursuant to Rule 418(b) of the Securities Act of 1933, as amended, the undersigned requests, on behalf of the Company, that the staff return the "Industry Data" binder to the undersigned upon completion of its review. The "Industry Data" is not, and shall not be deemed to be, filed with the Commission.

Cover Page

6. *Delete the phrase "Joint Book-Running Managers" from the cover page. You may, however, include this phrase, with a brief explanation, to describe the syndicate's specific function, in the Underwriting section.*

The Company has modified the cover page and the Underwriting section in response to the comment. Please see the cover page and page 88 of the prospectus.

Table of Contents

7. *Move the second paragraph beneath the Table of Contents to an appropriate location after the Risk Factors or incorporate the disclosure, to the extent material, in the summary or elsewhere in the prospectus. Also, relocate the paragraph on dealer prospectus delivery obligation to the outside back cover of the prospectus. Refer to Item 502(b) of Regulation S-K.*

The Company has modified the disclosure in response to the comment by moving the second paragraph beneath the Table of Contents. Please see page 4 of the prospectus.

The Company would like to retain the dealer prospectus delivery legend in its current position because due to the requirements of the electronic delivery format, Credit Suisse First Boston LLC has moved all the information previously found on the back cover page to the inside front cover page. Since this legend is important disclosure that applies to the entire document, the Company is concerned that it may be overlooked if it is imbedded further in the document. Moreover, Credit Suisse First Boston LLC has advised the Company that it received specific approval from Shelley Parrett of the staff to position the legend in this location. Therefore, the Company respectfully submits that it should be retained in it current position.

Prospectus Summary, page 1

8. *Abridge the first paragraph in italics by deleting the disclosure on what "we," "our," and "us" refer to, since this is already clear from the context. Also, relocate the second, third, and fourth paragraphs that appear in italics.*

The Company has modified the disclosure in response to the comment. Please see page 1 of the prospectus.

9. *Revise the summary to describe briefly the salient features of your business and the key aspects of this offering, and provide the detailed information on these aspects in the Business section. At present, the summary is too lengthy and repetitive of information that is disclosed later in the prospectus. For example, the Overview sub-section in the summary is repeated verbatim in the Business section, and much of the language in the Competitive Strengths and the Growth Strategy sub-sections in the summary and the Business section are identical. Delete the discussion of competitive strengths and growth strategies since it is more appropriate for the Business section.*

The Company has modified the disclosure in response to the comment. Please see pages 1-3 of the prospectus.

Our Business, pages 1-2

10. *Provide us with annotated third-party documentary evidence substantiating your claim that you are "the leading, and only national, company" in your field.*

Based on a report by Playthings Magazine published in December 2003, attached hereto as Exhibit A, the Company was the 20th largest retailer of toys in the United States. The 19 toy retailers larger than the Company were: Wal-Mart, Toys "R" Us, Target, KB Toys, Kmart, Gamestop, Electronics Boutique, Best Buy, FAO, Circuit City, Pleasant Company, Meijer, Toysrus.com, JCPenney, Big Lots, Costco, Sears, Shopko and Sam's Club. The Company believes that none of these companies operates in the make-your-own stuffed animal or retail entertainment categories. In 2003, Wal-Mart Stores, Inc. tested a make-your-own stuffed animal store-within-a-store concept called "Buttery Soft" in approximately 50 stores, according to a report prepared for the Company by the Parthenon Group. After a test period of several months, the Company believes that Wal-Mart has discontinued the concept. Based on the foregoing, the Company believes it is the leading company in its field.

The table below sets forth the store locations for all other make-your-own stuffed animal companies of which the Company is aware that have stores in more than one state. The information was collected based on a review of the list of store locations included on each company's website By comparison, the Company, as of July 3, 2004, had 157 stores in 37 states and 3 Canadian provinces, plus a number of franchised stores internationally. Based on this comparison, as well as discussions with many of the leading shopping mall owners and knowledge of competitors reported by employees at its various store locations, the Company believes that it is the only make-you-own stuffed animal company that can truly be considered national.

Company	Number of Stores	States in which Stores are Located	Number of States
Wacky Bear Factory	10	Delaware, Kentucky, Louisiana, Maryland, North Carolina, South Carolina, Tennessee, Texas, Virginia	9
Teddy Crafters	5	California, Ohio	2
Pawsenclaws & Co.	6	Maryland, Massachusetts, New Hampshire, New Jersey, Pennsylvania, Virginia	6

11. *Delete the hybrid word "retail-tainment" as it is not a well-known expression, and does not convey any additional information about your business to your readers.*

The Company has modified the disclosure throughout the prospectus in response to the comment.

12. *At present, the description of your business in the first two paragraphs has redundancies. For the sake of clarity, explain at the onset that your company is a mall-based retailer of "do-it-yourself' customized teddy bears. Also, condense the additional detail of your business into a brief, jargon-free description.*

The Company has modified the disclosure in response to the comment. Please see pages 1-3 of the prospectus.

13. *State the types of "event-based locations and sports venues" where you sell teddy bears.*

The Company has deleted the specified disclosure from the Overview in the Summary. Please see page 1 of the prospectus.

14. *To make the figures on the net sales per gross square foot of store space meaningful to investors, either provide the similar average figures in your industry or provide other comparative information, such as any change in average annual net sales per store during the last three fiscal years and any subsequent interim period.*

The Company has modified the disclosure in response to the comment. Please see page 2 and 45 of the prospectus.

15. *Describe clearly and briefly the nature of the "targeted, integrated, multi-media marketing program" that you developed and tested in 2003, and what you mean by "a national rollout" of this program in 2004.*

The Company has modified the disclosure in response to the comment. Please see page 1 of the prospectus.

Summary Consolidated Financial and Operating Data, page 6

16. *In a footnote to this table, please disclose what amounts are included in the "capital expenditures" line item. Please make this revision in the table of Selected Consolidated Financial and Operating Data beginning on page 22 as well.*

The Company has modified the disclosure in response to the comment. Please see pages 6-7 and 25-26 of the prospectus.

Risk Factors, page 8

17. *In the first paragraph in italics, revise the sentence "The risks and uncertainties described below are not the only ones we face" to make clear that you have identified all material risks known to you and anticipated by you at present.*

The Company has deleted the sentence in response to the comment. Please see page 9 of the prospectus.

General

18. *Several of your risk factor headings, as illustrated in the partial list below, do not identify the precise nature of harm that may result to your company. Revise these risk factor headings so that each of them describes adequately the material adverse effect of that particular risk discussed.*

- *"Our future growth and profitability will depend in large part upon the effectiveness of our marketing," page 8.*
- *"We are subject to a number of risks associated with leasing our stores," page 13.*
- *"We are subject to regulations that impact our employees," page 14.*
- *"Portions of our business are subject to privacy and security risks," page 14.*
- *"There has not previously been any public market for our common stock," page 16.*

The Company has modified the disclosure throughout the "Risk Factors" section, starting on page 9 of the prospectus, in response to the comment.

"We may not be able to maintain our current comparable store sales growth," page 8.

19. *Quantify in dollar terms the average decline in the level of your sales that your stores have experienced in their second and third years as compared to their first full year after opening.*

The Company has modified the disclosure in response to the comment. Please see page 9 of the prospectus.

“Our growth strategy requires us to open a significant number of new stores...,” page 9.

20. *Identify the locations of the two stores that you have closed.*

The Company believes that, as it operated 157 stores as of July 3, 2004 and has franchised additional stores internationally, the locations of the two stores that it has closed are immaterial to a description of its business.

“We may not be able to operate successfully if we lose key personnel...,” page 11.

21. *If you have had any difficulties in attracting, retaining, and motivating senior management, key personnel, and qualified staff in the recent past, describe the difficulties. Also, state whether to your knowledge any senior management or key personnel has plans to retire from, disassociate with, or quit your company in the near future.*

The Company does not believe it has had any difficulty attracting, retaining or motivating its senior management, key personnel and qualified staff in the recent past and, to its knowledge, no member of its senior management or any key personnel has plans to retire from, dissociate with or quit the Company in the near future.

22. *Disclose whether you have any key employee insurance policies.*

The Company has modified the disclosure in response to the comment. Please see page 12 of the prospectus.

“We rely on two vendors to supply substantially all of our merchandise...,” page 11.

23. *Since you are dependent on two vendors for the supply of your raw materials, identify them by name. Please refer to Item 101(c)(1)(iii) of Regulation S-K.*

Although the Company has sourced approximately 75% of its merchandise through two vendors, these vendors obtain such product from approximately 12 manufacturers. Therefore, from a manufacturing perspective, any individual manufacturer accounts for only a portion of the Company’s merchandise. Additionally, the Company does not believe that the identities of the two vendors are material. As these vendors are privately held, the Company does not believe investors would ascribe any particular significance to their names and, moreover, would not have information about their management, business, operations or financial condition on which to evaluate their importance. By contrast, the Company believes that disclosing the names of its vendors would be competitively sensitive. If a large competing retailer knew the identity of the Company’s vendors, it might seek to pressure the vendor to cease doing business with the Company or to do business with the Company on less favorable terms.

“Our failure to renew, register or otherwise protect our trademarks could have a negative impact...,” page 13.

24. *If you fail to protect your intellectual property rights, disclose the consequences to your operations and the remedial actions that would be necessary.*

The Company has modified the disclosure in response to the comment. Please see page 14 of the prospectus.

"We may have disputes with, or be sued by, third parties for infringement...," page 13.

25. *It appears that you have received notifications of potential infringement of intellectual property rights of third parties. To the extent material, identify the parties, disclose the times of notification, and describe the claims, including a discussion of the alleged infringements and the settlement or judgment terms, if any, and other consequences of the claims at law and in equity.*

The Company does not believe that any potential infringement of which the Company has received notice is currently material to the Company. In particular, the Company does not believe the matter described in Note 12(b) to the financial statements has any ongoing significance.

"We depend heavily on our communications and information systems, which are vulnerable to systems failure," page 14.

26. *If you have had any problems because of system failures, describe the problems, and the subsequent remedial and preventative measures you have undertaken.*

The Company does not believe it has had any problems resulting from system failures that resulted in a material interruption of its business or had a material adverse effect on the Company.

"Terrorism and the uncertainty of future terrorist attacks or war may harm our operating results," page 14.

"We are subject to regulations that impact our employees," page 14.

"Evolving regulation of corporate governance and public disclosure may result in additional expenses and continuing uncertainty," page 15.

27. *These risks are generic to many, if not most, companies, and are not germane to your business or your offering. If you choose to retain these risk factor discussions, ensure to make them specific to your company, providing quantified disclosure wherever possible.*

The Company has deleted the third risk and modified the disclosure of the first and second risks in response to the comment. Please see page 15 of the prospectus.

"We may suffer negative publicity...if our products are recalled or cause injuries," page 14

28. *Identify the products that you have been obliged to recall, and disclose the aggregate dollar amount you lost as a result of the recalls and any torts claims.*

The Company has not been required to recall any of its products. The Company implemented a voluntary recall of one type of stuffed bear. The recall had no material impact on the Company's business (as the vendor reimbursed the Company for its out-of-pocket costs) and no tort claims have been filed relating to such recall. Accordingly, the Company does not believe the identity of the product is material to investors.

"The market price of our common stock may be materially adversely affected by market volatility," page 16.

"If our share price is volatile, we may be the target of securities litigation...," page 18.

29. *Combine these two similar risk factors into a single, brief, and non-redundant discussion.*

The Company has modified the disclosure in response to the comment. Please see page 17 of the prospectus.

"Purchases of our common stock in this offering will be subject to immediate substantial dilution...," page 17.

30. *Revise to compare the net book value per share after the offering to the initial offering price.*

The Company has modified the disclosure in response to the comment. Please see page 18 of the prospectus.

"Our certificate of incorporation and bylaws and Delaware law contain provisions that could discourage a takeover," page 17.

31. *Revise your risk factor heading to disclose the actual risk to your shareholders, namely the risk that the anti-takeover provisions may prevent or frustrate attempts to replace or remove the current management of the company by shareholders, even if the takeover may be in their best interests.*

The Company has modified the disclosure in response to the comment. Please see page 18 of the prospectus.

Forward-Looking Statements, page 18

32. *Delete the sentence: "All statements that are not historical facts...are forward-looking statements." You may, however, state to the effect that statements that reflect your current views with respect to future events and financial performance, and any other statements of a future or forward-looking nature are forward-looking statements for the purposes of the federal securities laws.*

The Company has modified the disclosure in response to the comment. Please see page 20 of the prospectus.

33. *Your statement that words such as "will" are used to identify forward-looking statements is confusing since the term "will" generally implies more certainty. Please revise or advise.*

The Company has modified the disclosure in response to the comment. Please see page 20 of the prospectus.

34. *Delete the references to Section 27A of the Securities Act and Section 21E of the Securities Exchange Act because those sections do not apply to forward-looking statements made in connection with an initial public offering.*

The Company has modified the disclosure in response to the comment. Please see page 20 of the prospectus.

Use of Proceeds, page 19

35. *Provide a more meaningful description of "general corporate purposes," by breaking down the category into sub-components such as general and administrative expenses, and the like.*

The Company currently has not determined a specific allocation of the proceeds of this offering. If the Company determines any specific uses for the proceeds prior to the offering, it will supplementally advise the staff and revise the disclosure accordingly.

36. *Quantify the approximate dollar amount of proceeds that you intend to use for each of the three purposes you have identified. See Item 504 of Regulation S-K.*

See Response #35.

Capitalization, page 20

37. *At a minimum, please fill in the pro forma column of the table in your next amendment. We are deferring our review of this section and the Dilution section until they have been completed. It is possible that we will have additional comments.*

The Company has modified the disclosure in response to the comment. Please see page 22 of the prospectus.

Selected Consolidated Financial and Operating Data, page 22.

38. *Please revise the introductory paragraph to this table to disclose that the audited financial statements for the fiscal years ended January 1, 2000 and December 30, 2000 were audited by accountants no longer in existence.*

Although the Company's financial statements for the fiscal years ended January 1, 2000 and December 30, 2000 were originally audited by accountants no longer in existence, such financial statements were subsequently reaudited by the Company's current registered public accountants, KPMG LLP. Therefore, the Company believes that no revision to the disclosure is necessary.

Management's Discussion and Analysis

Overview, page 25

39. *Expand this section to discuss known material trends and uncertainties that will have or are reasonably likely to have a material impact on your revenues or income or result in your liquidity decreasing or increasing in any material way. In doing so, provide additional information about the quality and variability of your earnings and cash flows so that investors can ascertain the likelihood of the extent past performance is indicative of future performance. In addition, discuss in reasonable detail:*

   a. *economic or industry-wide factors relevant to your company, and*

   b. *material opportunities, challenges and risks in short and long term and the actions you are taking to address them.*

Please refer to SEC Release No. 33-8350.

The Company believes it has discussed key trends and uncertainties in the “Revenues”, “Costs and Expenses” and “Expansion and Growth Potential” subsections of the Overview and has added a cross-reference to those sections in the Overview in response to the comment. Please see pages 27-31 of the prospectus.

40. *Provide the average dollar amount in net sales in fiscal year 2001 and fiscal year 2002 for stores open for the entire year.*

The Company has modified the disclosure in response to the comment. Please see page 27 of the prospectus.

41. *Provide more detailed discussion to explain how you have achieved “economies” of your stores and improved “expense management.”*

The Company has modified the disclosure in response to the comment. Please see pages 28-30 of the prospectus.

42. *Explain clearly what you mean by expecting to “leverage” your store-level operating expenses and your overhead expenses, and exactly how you plan on achieving these objectives.*

The Company has modified the disclosure in response to the comment. “Leveraging” the Company’s store level and overhead expenses reflects that many of the Company’s expenses are relatively fixed in nature and would decline as a percentage of sales or revenues as sale or revenues increase. Please see pages 29-30 of the prospectus.

Results of Operations, page 29

43. *In circumstances where you describe more than one business reason for a significant change between periods in key financial data or indicators, quantify the incremental impact of each individual business reason on the*

overall change. For example, in your discussion on page 30 for the first half of fiscal year 2004 compared to the first half of the fiscal year 2003, you should quantify the:

- *Increase in gross margin as a percentage of net retail sales as a result of "leverage" on occupancy costs as compared to lower product, supplies, warehousing, and distribution costs;*
- *Increase in dollar amount of selling, general, and administrative expenses as a result of increase in number of stores in operation as compared to higher central office expenses; and*
- *Decrease in selling, general, and administrative expenses as a percentage of total revenues as a result of "leveraging" central office expenses as compared to "leveraging" store payroll expenses;*

Provide similar quantified information in your discussion of changes in aspects of operating results between other fiscal periods.

The Company has modified the disclosure in response to the comment. Please see pages 32-35 of the prospectus.

Non-GAAP Financial Measures, page 32

44. *Please ensure that a cross-reference to this section is provided in each instance "store contribution" is disclosed.*

The Company believes a cross-reference has been provided where appropriate.

45. *Please disclose, in a footnote to the table or elsewhere, how "store depreciation and amortization" and "general and administrative expense" as presented in this table has been calculated.*

The Company has modified the disclosure in response to the comment. Please see page 36 of the prospectus.

Seasonality and Quarterly Results, page 33

46. *Please fill in this table in your next amendment. We are deferring our review of this section until it has been completed. It is possible that we will have additional comments.*

The Company has modified the disclosure in response to the comment. Please see page 37 of the prospectus.

Liquidity and Capital Resources, page 34

47. *You state that "in fiscal 2005, we expect to spend a total of approximately $19.0 million to $21.0 million on capital expenditures..." Please support this assertion. Specifically please tell us what information, projections, facts or circumstances you have evaluated to arrive at this conclusion. Additionally please tell us if you have entered into any firm commitments related to these anticipated expenditures.*

[Confidential treatment requested for the table in this response.]

An estimate of the Company's capital expenditures for fiscal year 2005, indicating a range of estimates labeled "low" and "high," is set forth below. The Company has set a target for opening 29 additional traditional Build-A-Bear Workshop stores in fiscal year 2005 and has already signed a number of leases for these stores. The Company does not anticipate any difficulties in reaching its new store target for fiscal year 2005. The capital expenditures for the Company's average store is based on historical estimates. The Company's other significant expenditure in 2005 is for the opening of its New York flagship store. The Company has signed a lease for a 21,550 square foot location and is currently developing the design and cost of this store. The Company anticipates this location will have a significantly greater cost due to its size and location and the flagship nature of the store. The Company has no other firm commitments for these expenditures as of the date of this letter.

[REDACTED TEXT]

48. *Disclose the risks and the potential effects on your costs, liquidity, and cash flows resulting from your ability or inability to amend your credit agreement.*

The Company has modified the disclosure in response to the comment. Please see page 39 of the prospectus.

Contractual Obligations and Commercial Commitments, page 36

49. *As noted on page 50, please include all minimum payments required under your licensing and strategic relationships in the table.*

The Company has modified the disclosure in response to the comment. These amounts have been included in the table under "Purchase Obligations." Please see page 39 of the prospectus.

Business

50. *Throughout this section when you describe business partners, clarify whether there is a partnership agreement or other documentation of such relationship or use other terminology to describe the business relationship.*

The Company has modified the disclosure throughout this section in response to the comment.

Overview, page 39

51. *In the last paragraph in this sub-section, you refer to several "prestigious industry awards" you have received. For each award mentioned, disclose the criteria on which it was awarded, whether there was a competition among companies for that award, and the number of companies, if any, sharing the awards with you.*

The Company has modified the disclosure in response to the comment. Please see page 43 of the prospectus.

Our Mission, page 39

52. *Consider deleting this sub-section as it is neither informative nor germane to the offering for your investors. However, you may state that your company has a "customer-centric organizational focus," by only if you provide the factual basis underlying such claim.*

The Company's mission statement has been deleted in response to the comment.

"We offer an exciting interactive shopping experiences," page 40.

53. *Explain what you mean by "selective use of 'Bearisms'" and provide examples of "custom-designed fixtures" and how they "energize" customers.*

The Company has modified the disclosure in response to the comment. Please see page 43 of the prospectus.

“We have a broad and loyal Guest base,” page 40.

54. *Disclose the basis of your claim that you have a “loyal” customer base. For example, provide quantified disclosure on the number or percentage of “repeat” customers you have.*

The Company has modified the disclosure in response to the comment. Please see page 44 of the prospectus.

“We have strong merchandising expertise,” page 41.

55. *Explain what a “stock-keeping unit” is and how it differs from an inventory item.*

The Company has modified the disclosure in response to the comment. Please see page 45 of the prospectus.

“We provide a high level of Guest service through consistent execution,” page 41.

56. *Provide us annotated industry data evidencing your claim of your “above average employee retention rates.”*

[Confidential treatment requested for portions of the second sentence of this response.]

Industry data supporting the Company’s claim that it has above average employee retention rates is included at tab 1 in the enclosed binder labeled “Industry Data.” As indicated in this supplementary data, the Company’s turnover rate for 2003 was approximately [REDACTED TEXT]. By comparison, the overall turnover rate for retail companies in 2003, as reported by the National Retail Federation (“NRF”), was approximately 64%. Based on these figures, the Company believes that its employee retention rate is above average, since its turnover rate is below the NRF average.

“We have an attractive store economic model,” page 42.

57. *Explain in clear and simple language the process of “value engineering” and how this has reduced the average investment for your new stores.*

The Company has modified the disclosure in response to the comment. Please see page 46 of the prospectus.

"We have a highly experienced and disciplined management team," page 42.

58. *Elaborate in reasonable detail on how you "strive to be a socially responsible citizen" in the communities where you operate.*

The Company has modified the disclosure in response to the comment. Please see page 46 of the prospectus.

Marketing, page 48

59. *For each of the marketing programs you have discussed, consider stating the dollar amount spent for the last three fiscal years and any subsequent interim period.*

The Company has already disclosed the total amount it spent on advertising for fiscal 2001, 2002 and 2003 and the first half of fiscal 2004. See page 52 of the prospectus. The Company does not believe that providing a breakdown of these expenditures among its various marketing initiatives would add any material information that would be useful to investors and believes that the amounts of such expenditures are confidential and disclosure could be competitively sensitive.

International Franchises, page 52

60. *Disclose the material terms of the master franchise agreement, including the initial franchise fee, the percentage of franchise fees that you receive and the term of the franchise agreement.*

The Company has modified the disclosure in response to the comment. Please see page 56 of the prospectus.

Management Information Systems and Technology, page 53

61. *Explain how you are "implementing a new merchandise planning application," and differentiate between the "tactical and strategic information technology initiatives" you have taken.*

The Company has modified the disclosure in response to the comment. Please see pages 57-58 of the prospectus.

Non-Store Properties, page 54

62. *Identify the business activities for which you use the non-store properties.*

The Company has modified the disclosure in response to the comment. Please see page 58 of the prospectus.

Intellectual Property and Trademarks, page 54

63. *Provide in this sub-section a list of the U.S. patents you hold or in-license. Discuss the duration and effect of the patents, trademarks or licenses you hold.*

[Confidential treatment requested for the first sentence of the first paragraph and all of the second paragraph of this response.]

[REDACTED TEXT]. Accordingly, the Company does not believe that providing a list of the U.S. patents the Company holds or in-licenses would provide any material information that would be useful to investors; however, it has modified the disclosure to provide a range of patent expirations. Please see page 59 of the prospectus.

[REDACTED TEXT].

Executive Compensation

Stock Option Awards, page 61

64. *Expand your discussion in the Option Grant table to describe the valuation methodologies used by the board of directors in reaching its conclusions concerning the market value of the underlying shares. Briefly describe how the methodologies supported the valuations that established the option exercise prices. If there is a substantial disparity between the option exercise prices and the proposed public offering price, alert investors to the disparity and quantify the effect of using the public offering price as the base to compute the potential option values using the 5% and 10% assumed rates of stock price appreciation. If you wish to provide the potential realizable values in the table using the assumed offering price as the base price, we will not object, if you explain this is a footnote. See Section IV.C of SEC Release 33-7009.*

The Company has modified the disclosure in response to the comment. Please see page 65 of the prospectus.

Certain Relationships and Related Party Transactions, page 68

65. *In the second sentence of the first paragraph, it appears that the code of ethics and charter provisions are currently in place, yet it appears based on the first sentence that these are procedures that you will adopt. Please clarify whether the code of ethics and charter provisions are currently in place.*

The Company has modified the disclosure in response to the comment. Please see page 72 of the prospectus.

66. *Disclose the conversion ratio of the various classes of preferred stock to common stock, and clarify the price paid per share paid by insiders and their relative equity interest compared to the price per share of common stock offered in the initial public offering.*

The Company has modified the disclosure in response to the comment. Please see pages 72-74 of the prospectus.

67. *Throughout this section, disclose whether the terms of the related-party transactions obtained by the company or its predecessor were as favorable as could have been obtained from unaffiliated third parties.*

The Company has modified the disclosure in response to the comment. Please see page 72-74 of the prospectus.

Formation and Conversion to Corporation, page 68

Agreements with Investors, page 70

68. *Clarify that preemptive rights do not apply to the issuance of new securities in a registered transaction.*

The Amended and Restated Stockholders' Agreement by and among the Company and certain stockholders named therein provides that certain preemptive rights do not apply to securities issued and sold pursuant to a registration statement filed under the Securities Act of 1933, as amended. The Company has modified the disclosure in response to the comment. Please see page 74 of the prospectus.

Officer Loans, page 70

69. *Disclose whether the lending terms of each of the loans extended to members of management were comparable to terms obtainable from loans to unaffiliated third parties.*

See response #67.

Real Estate Management, page 71

70. *Disclose the amount of the fixed monthly fees and the success fee.*

The Company has modified the disclosure in response to the comment. Please see pages 75-76 of the prospectus.

Principal and Selling Stockholders, page 71

71. *Identify the natural persons who exercise voting, investment, and dispositive control over the securities held of record by CP4 Principals, LLC and KCEP Ventures II, L.P.*

The Company has modified the disclosure in response to the comment. Please see pages 78-79 of the prospectus.

72. *Disclose any material relationships between the selling stockholders and the company during the past three years. Refer to Item 507 of Regulation S-K.*

The Company has added a cross-reference in response to the comment. Please see page 80 of the prospectus.

Description of Capital Stock, page 74

73. *In the first paragraph modify the sentence "This description is only a summary" to the effect that this summary contains all material terms of the securities that constitute your capital stock, and your charter and bylaws as they relate to anti-takeover provisions. Also confirm that you have disclosed the material terms of the registration rights agreement.*

The Company has modified the disclosure in response to the comment. Please see page 80 of the prospectus.

Preferred Stock, page 75

74. *For each series of preferred stock outstanding, describe its voting and conversion rights.*

The Company has modified the disclosure in response to the comment. Please see page 81-82 of the prospectus.

Anti-Takeover Provisions of Delaware Law and Charter Provisions, page 77

75. *State clearly that you included in the discussion all provisions of Delaware law and your charter that may limit the ability of another person or entity to acquire control of your company.*

The Company has modified the disclosure in response to the comment. Please see page 82 of the prospectus.

Underwriting, page 82

76. *With respect to the lock-up agreements, disclose the factors the representatives will consider before consenting to a transaction prohibited by those agreements.*

The Company has modified the disclosure in response to the comment. Please see page 89 of the prospectus.

77. *Tell us and briefly disclose in the prospectus whether you intend to use any means of distributing or delivering the prospectus other than by hand or the mails, such as various means of electronic delivery. Also tell us and briefly disclose in the prospectus whether you intend to use any forms of prospectus other than printed*

prospectuses, such as CD- ROMs, video cassettes, and so on, and provide all such prospectuses for our examination. Please refer to SEC Releases No. 33-7233 and No. 33-7289. We may have additional comments.

As disclosed on page 90 of the prospectus, one or more members of the underwriting syndicate may make a prospectus in electronic format available on the web sites maintained by such underwriters and may distribute prospectuses electronically. Credit Suisse First Boston LLC and Citigroup Global Markets Inc. (together, the "Representatives") have informed the Company that they intend to make the preliminary and final prospectus available in electronic (PDF) format via email to certain of its customers, as well as on the internet through a password protected portal on their proprietary websites. Please note, however, that the Representatives will not rely on such availability to satisfy its prospectus delivery requirements.

78. *Specifically identify any members of the underwriting syndicate that will engage in any electronic offer, sale or distribution of the shares and describe their procedures to us supplementally. If you become aware of any additional members of the underwriting syndicate that may engage in electronic offers, sales or distributions after you respond to this comment, promptly supplement your response to identify those members and provide us with a description of their procedures.*

Briefly describe any electronic distribution in the filing. Also, in your discussion of your procedures, tell us how your procedures ensure that the distribution complies with Section 5 of the Securities Act. In particular, describe:

- *the communications used;*
- *the availability of the preliminary prospectus;*
- *the manner of conducting the distribution and sale, such as the use of indications of interest or conditional offers; and*
- *the manner and timing of funding of an account and payment of the purchase price.*

The Representatives have advised the Company that one or more members of the underwriting syndicate may engage in an electronic offer, sale or distribution of the shares and may make a prospectus in electronic format available on the web sites that they maintain or may distribute prospectuses electronically. At the time the Representatives send out invitations to participate in the offering to potential syndicate members, the underwriters that have been invited must accept the invitation on the basis that they will not engage in any electronic offer, sale or distribution of shares, or that if they do engage in such activities, that they will do so only on the basis that the procedures that these underwriters use for electronic offers, sales or distributions have been previously reviewed by the Commission and the Commission raised no objections.

The Company has been advised by the Representatives that each member of the syndicate of this offering will be an established firm, a registered broker/dealer and an NASD member. However, due to the nature of the syndicate process, the final syndicate list and allocations of shares will not be made until the day of pricing. Shortly after the Registration Statement is declared effective, pricing information is determined and communicated to those firms that have expressed an interest in becoming syndicate members. After a relatively short period, in which these invitees can decline to participate in the syndicate on the negotiated terms, the final syndicate is established and allocations of shares are made. Prior to that time, the Representatives know only who has been invited to join the syndicate, but not the final composition of the syndicate or the allocation of the shares. Therefore, the Representatives do not have an opportunity to make inquiry of the individual firms that will ultimately comprise the syndicate until after the relevance of their plans, if any, for internet distribution have been mooted by the declaration of effectiveness of the Registration Statement.

79. *In addition, tell us whether you or the underwriters have any arrangements with a third party to host or access your preliminary prospectus on the Internet. If so, identify the party and the website, describe the material terms of your agreement, and provide us with a copy of any written agreement. Also provide us with copies of all information concerning your company or prospectus that has appeared on their website. Again, if you subsequently enter into such arrangements, promptly supplement your response.*

Other than with respect to electronic roadshows conducted in compliance with SEC no-action letters, the Company has not, and the underwriters have not, made any arrangements with a third party to host or access the preliminary prospectus on the internet.

The Representatives have advised the Company that they have no arrangement with a third party to host or access the preliminary prospectus on the internet. While the Representatives have contracted with Yahoo! NetRoadshow (www.netroadshow.com) to conduct an Internet roadshow, the purpose of this contract is not specifically to host or access the preliminary prospectus. The primary purpose of the Internet roadshow is to provide access to the roadshow to institutional investors who cannot, or elect not to, attend roadshow meetings in person. Yahoo! NetRoadshow has informed the underwriters that it conducts Internet roadshows in accordance with the Net Roadshow Inc. no-action letter dated July 30, 1997, received from the Commission in connection with virtual roadshows and subsequent no-action letters from the Commission with respect to virtual roadshows. In accordance with such no-action letters, an electronic version of the preliminary prospectus, identical to the copy filed with the Commission and distributed to live attendees, is required to, and will, be made available on the web site.

Currently, no information regarding the Company or the offering appears on the Yahoo! NetRoadshow web site.

80. *Tell us whether you intend to have a directed share offering. If so, disclose in the prospectus the maximum number of common shares reserved for sale, and confirm whether the sale will be at the initial public offering price, whether the shares thus purchased will be subjected to lock-up restrictions, and whether any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares. Also, please provide us with all materials given to potential purchasers in the directed offering.*

The Company has modified the disclosure in response to the comment. Please see pages 86-88 of the prospectus.

The Company intends to have a directed share program. Representatives of the Company and the underwriters have agreed to reserve for the directed share program 5% of the amount of common shares to be sold in the proposed offering at the initial public offering price. Citigroup Global Markets, Inc. (“Citigroup”), through its affiliate Smith Barney Inc., will be administering the directed share program. The Company will be furnishing the directed share program and related materials supplementally to the staff. The Company has been advised by Citigroup that these materials have previously been reviewed, excluding the discussion of the Lock-Up Agreement described below, by Kristina S. Wyatt of the staff.

The directed share program materials will include a Lock-Up Agreement requiring each purchaser in the directed share program to agree that for a period of 180 days from the date of the prospectus, such purchaser will not, without prior written consent of Citigroup, dispose of or hedge any common shares purchased in the directed share program. Each purchaser will be required to sign the Lock-Up Agreement and submit it to Citigroup with this completed Indication of Interest Form. The purchasers in the directed share program will be subject to the same form of Lock-Up Agreement as the Company’s officers, directors and major shareholders. However, the Lock-Up Agreement for the directed share participants will also contain the additional following language:

> “The undersigned understands that this Lock-Up Agreement is irrevocable and shall be binding upon the undersigned’s heirs, legal representatives, successors, and assigns. The undersigned further understands that his or her Lock-Up Agreement does not constitute an obligation on the part of the undersigned to purchase any common shares or any agreement by the Underwriters to sell any Securities to the undersigned.”

The form of Lock-Up Agreement to be executed by the officers, directors and major shareholders will be submitted as an exhibit to the Company’s form of Underwriting Agreement, which will be filed by amendment to the Company’s Registration Statement as Exhibit 1.1.

81. *In addition, if you intend to engage in a directed share offering, supplementally describe the mechanics of how and when these shares are offered and sold to investors in the directed share program for this offering. For example, tell us how the prospective recipients and number of reserved shares are determined. Tell us how and when the issuer and underwriter notified the directed share investors, including the types of communications used. Discuss the procedures these investors must follow in order to purchase the offered securities. Tell us whether directed share purchasers are required to establish accounts before the effective time, and, if so,*

whether any funds are put in newly established brokerage accounts before the effective date. Tell us how the procedures for the directed share program differ from the procedures for the general offering to the public. Finally, tell us how you will assure that this offer will meet the requirements of Section 5 of the Securities Act and Rule 134.

Citigroup will be administering the directed share program. The Company will be furnishing the form of Citigroup's form of directed share program materials supplementally to the staff. Citigroup has advised the Company that the form of these materials, excluding the Lock-Up Agreement described below, have previously been reviewed by Kristina S. Wyatt of the staff.

Please note that senior executives of the Company are preparing a list of selected parties, none of whom are directors, officers or employees (the "Offerees"), whom the Company would like to invite to participate in a directed share program.

Representatives of the Company and the underwriters have agreed to reserve for the directed share program up to 5% of the amount of common shares to be sold in the proposed offering at the initial public offering price. The Company and Citigroup believe that this amount represents an amount which is (1) sufficient to allow the Company to make available a limited number of shares to such individuals and (2) customary in transactions of this type. The Company intends to distribute the directed share program materials to potential purchasers once the preliminary prospectus is printed.

The directed share program materials will include a Lock-Up Agreement requiring each purchaser in the directed share program to agree that for a period of 180 days from the date of the prospectus, such purchaser will not, without prior written consent of Citigroup dispose of or hedge any shares of its common stock purchased in the directed share program. Each purchaser will be required to sign the Lock-Up Agreement and submit it to Citigroup. The purchasers in the directed share program will be subject to the same form of Lock-Up Agreement as the Company's officers, directors and major shareholders. However, the Lock-Up Agreement for the directed share participants will also contain the additional following language:

"The undersigned understands that this Lock-Up Agreement is irrevocable and shall be binding upon the undersigned's heirs, legal representatives, successors, and assigns. The undersigned further understands that his or her Lock-Up Agreement does not constitute an obligation on the part of the undersigned to purchase any shares of Common Stock or any agreement by the Underwriters to sell any Securities to the undersigned."

The form of the 180-day Lock-Up Agreement to be executed by the officers, directors and major shareholders will be submitted as an exhibit to the Company's form of Underwriting

Agreement, which will be filed by amendment to Company's Registration Statement as Exhibit 1.1.

The Company and Citigroup will work together to operate the directed share program. The Company will allocate shares to investors, and Citigroup will handle the mechanics of distributing the shares.

Citigroup and the Company will employ the following procedures in making the offering under the directed share program:

- The Company will deliver by first class mail or by Federal Express or other reputable overnight courier the directed share materials to potential purchasers once the preliminary prospectus is printed.

- If the potential investor has an interest in purchasing shares in the proposed offering, he or she must complete and mail, fax or deliver (a registered representative of Citigroup will be at the Company's executive offices on specified dates to accept such delivery) the Indication of Interest ("IOI") Form, the IPO Questionnaire (which requests from participants who are not employees of the Company information needed to comply with the Voluntary Initiative and NASD Rule 2790), the New Account Information Form (if the person does not already have an account with Citigroup), the Form W-9 and the Lock-Up Agreement so that they are received by Citigroup by a specified date.

- When the offering is priced, the Company will determine the final allocation of shares among those persons who submitted timely and proper indications of interest in participating in the directed share program. Citigroup will then call each such person to confirm certain pertinent information, including the purchase price, the number of shares allocated to such person, the person's continued desire to participate in the directed share program, the number of shares within the allocated amount, if any, they intend to purchase and the person's account number.

- Citigroup will send each person who, when the offering was priced, confirmed his or her intention to purchase, a copy of the final prospectus and a written confirmation of the offer and sale.

- Full payment of the purchase price for the shares bought in the initial public offering through the directed share program must be received by Citigroup by the settlement date, which will be three or four days after the pricing date in accordance with Rule 15c6-1 under the Securities Exchange Act of 1934. If Citigroup does not receive the potential purchaser's payment by the settlement date then Citigroup will notify the Company of the same and Citigroup will then sell such shares into the open market.

- The Company also intends to allow participants based in the United States to participate through a website maintained by Citigroup. The Company has been advised that the website is designed with specific encryption to make available to the Offerees electronic versions of the preliminary prospectus and may also include the IPO Questionnaire, the New Account Information Form , the Form W-9 and the Lock-Up Agreement. Participants may also use the website to complete the IPO Questionnaire, to place an IOI and to confirm whether they want to purchase any of the shares that the Company may allocate to those participants who previously submitted an IOI by the IOI deadline.

The Company and Citigroup currently are in the process of finalizing written materials to be provided to persons from whom expressions of interest in the proposed offering will be sought. The directed share program materials that the Company intends to deliver by first class mail or by Federal Express or other reputable overnight courier to potential purchasers will include:

- a cover letter to potential purchasers from Citigroup, the administrative agent;
- a General Information and Procedural Memorandum to potential purchasers, providing instructions and frequently asked questions and answers;
- an Indication of Interest Form to be completed by potential purchasers to indicate any interest they may have in purchasing shares in the proposed initial public offering, including the number of shares they may have an interest in purchasing;
- an IPO Questionnaire to be completed, signed and returned to Citigroup by the potential purchaser, which will be used to help Citigroup determine whether, under NASD rules, the potential purchaser is eligible to participate in the directed share program;
- a New Account Form to be completed by the potential purchaser in order to allow Citigroup to open an account for the potential purchaser (a potential purchaser must have a Citigroup account in order to participate in the directed share program);
- a Form W-9 to be completed, signed and returned to Citigroup by the potential purchaser. The Internal Revenue Service requires this form to be completed in order for the potential purchaser to provide Citigroup with the potential purchaser’s taxpayer identification and certification;
- a Lock-Up Agreement as described above; and
- a copy of the preliminary prospectus.

A form of each of these documents, other than the preliminary prospectus, will be furnished supplementally to the staff.

The Company supplementally advises the staff that, in connection with the directed share program, no offers were made prior to the filing of the Registration Statement with the staff, offers will be made only with a preliminary prospectus and no funds have been or will be committed or paid prior to the effectiveness of the Registration Statement.

As described in the directed share program materials, which the Company will be furnishing supplementally to the staff, the Company and Citigroup will assure that this directed share program offer is consistent with Rule 134 by:

- Ensuring that each of the documents (other than the preliminary prospectus) delivered to the persons invited to participate in the directed share program will contain language that is permitted by Rule 134.

- Requiring each directed share program participant to acknowledge, by signing the Indication of Interest form, that no offer to buy any of the shares in the proposed offering can be accepted and no part of the purchase price can be received by Citigroup until the registration statement covering the proposed offering has been declared effective by the Commission and that any such offer may be withdraw or revoked, without obligation or commitment, at any time prior to the prospective purchaser's confirmation of his or her intention to purchase shares is given after the effective date of the registration statement.
- Providing that a potential purchaser's submission of a completed IOI Form involves no obligation or commitment of any kind, and by completing the IOI Form, the person is not binding himself or herself to purchase any shares.
- If the potential purchaser confirms his or her intention to purchase, the underwriter will send the purchaser a copy of the final prospectus that meets the requirements of Section 10 of the Securities Act, which will contain the price of the offering and other information not included in the preliminary prospectus, and a written confirmation of the sale with respect to the shares.

82. *Clarify that Bryan Cave LLP has passed upon the validity of the securities offered.*

The Company has modified the disclosure in response to the comment. Please see page 92 of the prospectus.

Where You Can Find More Information, page 86

83. *Delete the following sentence: "Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete." The disclosure regarding contracts, agreements and other material documents should be materially complete.*

The Company has modified the disclosure in response to the comment. Please see pages 92-93 of the prospectus.

84. *We note your representations that some of the information in the registration statement is based on information you obtained from sources "believed to be reliable" but that you have not verified and cannot guarantee the information. Please note that you are responsible for the entire content of the registration statement and cannot include language that can be interpreted as a disclaimer of the information contained in the filing. Please revise.*

The Company has modified the disclosure in response to the comment. Please see page 93 of the prospectus.

Financial Statements

Consolidated Balance Sheets, Page F-3

85. *In accordance with paragraph 42 of SFAS 142, please present all intangible assets as a separate line item in your consolidated balance sheets.*

The Company has modified the disclosure in response to the comment. Please see pages F-3, F-15 and F-16 of the prospectus.

86. *As noted on page F-22, please revise your balance sheet to present the promissory notes as a separate line item in stockholders' equity rather than netting them against additional paid-in capital. In addition, please disclose in greater detail the limited-recourse nature of each of the promissory notes. Please also tell us whether you expect these amounts to be repaid in full at maturity. If you have forgiven or intend to forgive all or a portion of the notes, please disclose this as well.*

The Company has accounted for the restricted stock issued to employees in exchange for promissory notes in accordance with EITF Issue 95-16. The Company anticipates the loans will be repaid in full at maturity and does not intend to forgive all or any portion of the notes. At the time of issuance, the Company had no history of pursuing collection of such instruments from employees and, accordingly, the loans were treated as nonrecourse for accounting purposes.

Consolidated Statements of Operations, page F-4

87. *Under the guidelines of SAB Topic 6:B and in accordance with your use of the Two-Class Method of calculating earnings per share, it appears that the line item "Net income available to common stockholders" would be more appropriately titled "Net income available to common and participating preferred stockholders." Please make this revision or tell us why your present disclosure is more appropriate. Additionally, please disclose separately, on the face of this statement, the amount of net income allocated to common stockholders and the amount allocated to participating preferred stockholders. Accordingly, please revise your disclosure of this financial information presented elsewhere in this registration statement to coincide with these revisions.*

The Company has modified the disclosure in response to the comment. Please see page F-4 of the prospectus. In addition, other related disclosures have been modified to be consistent with this disclosure.

Consolidated Statements of Stockholders' Equity, page F-5

88. *Please supplementally provide us with your statement of stockholders' equity for the year ended December 30, 2000. In doing so, please show your activity up to April 3, 2000 separately from your activity after April 3, 2000. This will ensure that the April 3, 2000 adjustment between retained earnings and additional paid-in capital that is required by SAB Topic 4:B upon your conversion from a LLC to a C corporation is easy for us to recompute. If you have not made this adjustment, please amend your financial statements and related disclosures accordingly.*

The Company is supplementally providing the staff with Exhibit B presenting its statement of stockholders' equity for the fiscal year ended December 30, 2000. The Company advises the staff that the adjustment required upon conversion of the Company from a LLC to a C corporation was properly reflected in accordance with the SAB Topic 4:B and should be presented in a manner easy for the staff to review.

Note (1) Description of Business, page F-7

89. *Given that you purchased the 49% minority interest of BABE on February 10, 2003, please tell us why no amount has been recorded as the minority interest share of BABE's income or loss in your consolidated statements of operations for the fiscal years ended December 28, 2002 and January 3, 2004. Consider the need to clarify your disclosure if appropriate.*

The financial statements do not reflect a minority interest for the interest in BABE's operations for the fiscal years ended December 28, 2002 and January 3, 2004 because the entity had no active operations during the periods subsequent to the fiscal year ended December 29, 2001.

Note (2)(b) Pro Forma Presentation, page F-8

90. *Please reconcile in table format between the numerators and denominators used in computing historical basic and diluted EPS and those used in computing pro forma EPS. In doing so, please present the impact of each class of preferred stock separately in the reconciliation. Please also expand your EPS information in Note (11) to show the impact of each class of preferred stock separately. This may be done by either revising the EPS reconciliation on page F-19 or adding a section just after that breaks out each of the combined preferred stock amounts shown and reconciles to the amounts shown in the table.*

The Company has modified the disclosure in response to the comment. Please see pages F-8 and F-9 of the prospectus.

Note (2)(f) Property and Equipment, page F-8.

91. *Given the significance of leasehold improvements to total assets and to enable a user to better predict future depreciation expense, please quantify the period over which these assets are depreciated by disclosing either a range of useful lives or a weighted average useful life.*

The Company acknowledges the staff's suggestion and proposes to enhance its disclosure to include the number of years related to the estimated useful lives of the Company's depreciable leasehold improvement assets. Accordingly, the Company has modified the disclosure in response to the comment. Please see page F-9 of the prospectus.

92. *Please disclose the useful life over which you depreciate computer software. Additionally please tell us whether this software is internally developed or purchased. If internally developed, please disclose your accounting policy for capitalizing such costs.*

The Company acknowledges the staff's suggestion and has enhanced its disclosure to include the number of years related to the estimated useful lives of computer software. Please see page F-9 of the prospectus. The Company has capitalized purchased software but has not had any internally developed software to date.

93. *Please disclose your policy for accounting for new store construction deposits.*

The Company has modified the disclosure in response to the comment. Please see page F-9 of the prospectus.

94. *Please revise your disclosure to clarify your accounting policy for tenant allowances. Please ensure that your revised disclosure includes the total amount of allowances received and the specific property and equipment assets these allowances are charged against. Supplementally, please tell us what these allowances are for and why your accounting treatment is appropriate.*

The Company has modified the disclosure in response to the comment. Please see page F-9 of the prospectus. The Company receives tenant allowances from its retail mall lessors as a component of the agreement to enter into the lease arrangement and build-out the store. The allowance is, in effect, a sharing of the costs for the leasehold improvement associated with the build-out and, accordingly, is recorded as an offset to the leasehold improvements in the Company's financial statements. The Company has revised the disclosure in order to clearly indicate this concept.

Note (2)(i) Accrued Rent, page F-9

95. *Paragraph 5.n. of SFAS 13, as amended by SFAS 29, discusses how lease payments that depend on an existing index or rate, such as the consumer price index or the prime interest rate, should be included in your minimum lease payments. Please tell us whether you have any leases that have these types of provisions. If you do, please disclose your accounting policy for these types of escalation clauses as well.*

The Company has modified the disclosure in response to the comment and clarified the basis of accounting for leases in which there is provision for contingent adjustments to the future lease payments. Please see Note 2(j) on page F-10 of the prospectus.

Note (2)(j) Franchises, page F-9

96. *Please disclose the life of the franchise agreements.*

The Company has modified the disclosure in response to the comment. Please see Note 2(k) on page F-10 of the prospectus.

Note (2)(k) Retail Revenue Recognition, page F-9

97. *Please disclose what caused the $0.4 million difference between the increase in net sales ($1.1 million) and the increase in net income ($0.7 million) that resulted from the adjustment to deferred revenue. If you are deferring related expenses as well, please disclose how that amount was determined, the balance of deferred expenses at each balance sheet date and consider the need to revise your disclosure to clarify your accounting policy.*

The Company has modified the disclosure in response to the comment to clarify that the difference between the increase in net sales and the effect on net income is the related income taxes. Please see Note 2(l) on page F-10 of the prospectus.

Note (2)(o) Advertising, page F-10

98. *Please disclose why advertisement costs are not expensed the first time the advertising takes place. See paragraph 26 of SOP 93-7. Please also supplementally tell us the authoritative guidance that supports your current policy of expensing costs over the period the advertising appears.*

The Company has modified the disclosure in response to the comment to clarify for the Staff and to the readers of the financial statements that production costs associated with advertising are expensed in the period in which the use of the produced advertising first takes place. Please see Note 2(p) on page F-11 of the prospectus.

Note (2)(r) Stock-Based Compensation, page F-11

99. *Supplementally please tell us the facts and circumstances surrounding the $59,219 of stock-based compensation you have recorded in the twenty-six week period ended July 3, 2004. Please ensure that your response details the instruments to which this expense relates, their characteristics that caused the expense and how you calculated the amount given your accounting policy.*

The Company supplementally advises the staff, with respect to the stock-based compensation recorded in the twenty-six weeks ended July 3, 2004, that the amounts were recorded as a result of two modifications to outstanding option agreements. The Board granted a modification to the vesting period of an officer of the Company upon his separation from the Company and, separately, the Board provided for the ability of another option holder to exercise his options through a cashless exercise. Accordingly, the modifications were treated as new grants and compensation was recorded for the intrinsic value at the date of the modified grants.

Note (3) Impairment Charge, page F-13

100. *Please disclose why it has taken so long to close the three stores identified as not meeting operating objectives, which are deemed to be impaired. Additionally please disclose when you anticipate finalizing the closure of the two remaining identified stores. Please disclose the facts and circumstances surrounding this impairment.*

Please disclose the composition of the amounts included in the other cash costs column, explain why these amounts have not yet been paid and explain when they will be paid.

The Company has modified the disclosure in response to the comment to include the considerations surrounding the stores and the timing associated with the closing thereof. Please see page F-14 of the prospectus.

Note (12) Stock Option Plan, page F-20

101. *Please provide a supplemental schedule showing in chronological order, the date of grant, optionee, number of options granted, exercise price, the deemed fair value of the underlying common stock, and the amount of deferred compensation recognized for all options issued during fiscal year 2003 and to date. Please present issuances to employees separately from issuances to nonemployees. Provide the estimated IPO price. If your expected IPO price is more than your estimated fair value on which compensation expense was measured, supplementally explain in detail, the rationale supporting your estimate of fair value. Discuss and quantify the impact on your fair value of any events, which occurred between the dates the options were granted and the date the registration statement was filed to support a fair value below the proposed IPO price.*

[Confidential treatment requested for Exhibit D to this response.]

Attached hereto as Exhibit C is a supplemental schedule listing all stock option grants by the Company in fiscal 2003 and through September 14, 2004. All option grants have been to either employees or directors. A public offering price has not yet been set. However, the Company anticipates that the proposed public offering price will be substantially higher than the exercise price for the options listed in Exhibit D. Therefore, attached hereto as Exhibit D is a presentation of the basis used by the Company to determine the exercise prices of these option grants as well the reasons why the Company believes the increase in the per share valuation from April 2004 (the date of the last option grant) to October/November 2004 (the anticipated effective date of the proposed public offering) is directly the result of favorable developments in the registrant's business since April 2004.

102. *Please disclose the timing, nature, terms, value and reason for each issuance of options to nonemployees. Please also disclose the compensation expense recorded and the assumptions you used. The minimum value method is not appropriate for issuances to nonemployees.*

All options granted by the Company have been either to employees or directors of the Company. The Company has modified the disclosure in response to the comment. Please see page F-22 of the prospectus.

Note (13) Stockholders' Equity, page F-22

103. *Supplementally, please clarify for us your accounting treatment for the convertible redeemable preferred stock issued on April 5, 2000 (2,666,666 shares of Series A and B), under the guidelines of EITF 98-5 and the convertible redeemable preferred stock issued from September through December 2001 (3,467,337 shares of Series D), under the guidelines of EITFs 98-5 and 00-27. Please ensure that your response includes your evaluation of the conversion feature, including how you valued the underlying stock into which these shares are convertible.*

The Company advises the staff that the conversion terms of the Company's convertible redeemable preferred do not have any beneficial conversion features and are not variable as contemplated by EITFs 98-5 and 00-27.

Note (17) Segment Information, page F-24

104. *Please disclose the information required by paragraph 26 of SFAS 131.*

The Company has modified the disclosure in response to the comment. Please see page F-25 of the prospectus.

105. *In disclosing the tabular segment information, please follow the guidelines of paragraph 32 of SFAS 131. Specifically, please provide a reconciliation of the total segments' net sales to external customers to your total consolidated net sales. At present, net sales to external customers for the year ended January 3, 2004 equals your total consolidated net sales reported on your statement of operations; however, you then report intersegment revenue of $1,524,850. It is not clear to us how this intersegment revenue is eliminated in consolidation.*

The Company has evaluated its disclosure in response to the comment and, upon further review has determined that the intersegment revenue included in the previous disclosure is the inter-company allocation of certain expenses between segments. Accordingly, the disclosure has been revised to eliminate the line for intersegment revenues. Please see page F-26 of the prospectus.

Item 15. Recent Sales of Unregistered Securities, page II-2

106. *For each of the issuances of unregistered securities discussed, state the specific facts relied upon in the particular case to make the stated exemption available.*

The Company has modified the disclosure in response to the comment. Please see pages II-2 - II-4 of the Registration Statement.

107. *For each issuance of securities, disclose both the aggregate and per share price, along with the amounts of each form of consideration received. In doing so, please ensure that you also separately disclose each issuance of options and warrants, along with their terms, fair values and reason for issuance. Please also present issuances to nonemployees separately from issuances to employees.*

The Company has modified the disclosure in response to the comment. Please see pages II-2 - II-4 of the Registration Statement.

* * *

We appreciate your prompt review of the Registration Statement and look forward to hearing from you with respect to this Amendment No. 2. If you require any additional information on these issues, or if we can provide you with any other information which will facilitate your continued review of this filing, please advise us at your earliest convenience. You may reach R. Randall Wang at 314-259-2149, James H. Erlinger III at 314-259-2723 or me at 314-259-2682, or any of us by fax at 314-259-2020.

Very truly yours,

/s/ John G. Shively

John G. Shively

Enclosures

cc: Pradip Bhaumik (w/encl.)
Rufus Decker (w/encl.)
James Hoffmeister (w/encl.)
Ellie Quarles (w/encl.)
Securities and Exchange Commission
Maxine Clark (w/encl.)
Barry Erdos (w/encl.)
Tina Klocke (w/encl.)
Build-A-Bear Workshop, Inc.
Gerry Carlson (w/encl.)
KPMG LLP
James H. Erlinger III (w/encl.)
R. Randall Wang (w/encl.)

Exhibit A

Playthings Magazine Report

Playthings Giants

The Top 25 Toy Retailers of 2002

Playthings

published December 2003

Where to find it

Quick key to the ranking

Best Buy	8
Big Lots	15
Build-A-Bear Workshop	20
Circuit City	10
Costco	16
Electronics Boutique	7
FAO	9
Fred Meyer	23
GameStop	6
Hallmark Gold Crown Stores	25
JCPenney	14
KB Toys	4
Kmart	5
Meijer	12
Michaels Stores	24
Musicland	21
Pleasant Company	11
Sam’s Club	19
Sears	17
ShopKo	18
Target	3
Toys “R” Us	2
Toysrus.com	13
Walgreen	22
Wal-Mart	1

Playthings GIANTS 2003

The toy industry's Top 25 retailers recorded 2002 playthings sales of $28.4 billion, a 2 percent increase over $27.8 billion in 2001 for the same companies. This increase is slightly lower than the 4 percent increase the U.S. Department of Commerce reported for 2002 retail sales of toys, dolls and games. According to the Personal Consumption Expenditure Survey, consumers spent $49.9 billion last year, compared with $48.0 billion in 2001.

The big gorilla remains the discount department store channel, particularly Wal-Mart. Discount department stores account for nearly half of the Top 25, with $13.4 billion in playthings sales, a 1.4 percent increase from $13.2 billion in 2001. Wal-Mart's plaything sales make up nearly two-thirds of the discount store total, and 30 percent of total Giant's playthings sales.

As in many retail categories, Wal-Mart is No. 1, with $8.5 billion in 2002 playthings sales, a slim 2.4 percent increase over its 2001 sales. The behemoth discounter opened 43 discount stores and 192 supercenters last year, including 122 discount store conversions and believes there's even more room to grow. Wal-Mart announced plans to open 50 to 55 new discount stores and 220 to 230 new supercenters, including 140 discount conversions, in 2004.

No. 3 Target experienced the highest percentage growth in playthings sales among the discounters at 12.8 percent. Target also had the largest dollar increase in playthings sales — $255 million. Overall, the honor of the highest percentage increase in playthings sales goes to a retailer in another channel. Musicland (No. 21), an entertainment/electronics specialist turned in a 37.2 percent increase in playthings sales — reaching $155 million — $100 million less than Target's dollar increase in sales.

No. 15 Big Lots also had a healthy 2002 with playthings sales of $250 million, a 10.1 percent increase over 2001's $227 million. The future looks bright for this closeout discounter as it launched it first-ever national television campaign this April.

Things were not all peaches and cream in the discount store channel, however. Kmart's playthings sales were down 15%, the direct result of closing 285 stores as part of its bankruptcy restructuring. Midwest-based Shopko, which includes Pamida stores, also saw declining playthings sales in 2002.

(GRAPH omitted)

The top five retailers — Wal-Mart, Toys "R" Us, Target, KB Toys and Kmart — account for 74 percent of this year's Top 25, selling $21.1 billion in playthings. The group experienced a modest 0.3 percent increase in sales over 2001. While Kmart contributed to the biggest drag on sales for the group, the only company in the group with significant playthings sales increases is Target. One of the two toy specialists — Toys "R" Us — had a 2 percent sales decline; the other, KB Toys, had only a 1.5 percent increase.

(GRAPH omitted)

The top 5 garnered 74% of Giants 2002 sales

2002 playthings sales

in billions	
Wal-Mart	$8.5
Toys "R" Us	$6.6
Target	$2.3
KB Toys	$2.1
Kmart	$1.7

Source: Playthings market research

Toy specialists account for exactly one-third of the Top 25, down one percentage point in market share from 2001. In sharp contrast with the sales increases posted by Target and Big Lots, some of the biggest and best-known names among the toy specialists are struggling.

At No. 2, Toys "R" Us is the leader of the specialty pack, with 2002 playthings sales of $6.62 billion, down from 2001's $6.75 billion. TRU closed a net of 25 units last year and completed its Mission Possible renovations in all units. Still working to improve the bottom line, TRU announced in November its plans to close all free standing Imaginarium units, as well as all freestanding Kids "R" Us clothing stores.

No. 4 KB Toys reached $2.06 billion in plaything sales in 2002, compared with $2.03 billion in 2001. KB's stab at reaching a wider audience includes expanding the "KB Toys at Sears" concept to 600 licensed departments within Sears stores. It also became the exclusive toy supplier for CVS/Pharmacy this year by providing year-round merchandise to the drug store chain.

In the No. 9 slot, FAO, Inc., including FAO Schwarz, Zany Brainy and The Right Start, experienced a 5 percent decline in playthings sales. FAO, too, is trying to expand its audience. The specialist extended its reach by launching FAO Schwarz boutiques in Carson Pirie Scott

Growth champs, 2001-2002

Biggest sales increases

In dollars

In $ millions

Company	Top 25 Rank	Dollar Increase
Target	3	$255.0
GameStop	6	231.6
Wal-Mart	1	200.0
Electronics Boutique	7	149.5
Best Buy	8	96.0
Toysrus.com	13	62.0
Circuit City	10	46.0
Musicland	21	42.0
KB Toys	4	30.0
Big Lots	15	23.0

By percent

Company	Top 25 Rank	Percentage Increase
Musicland	21	37.2%
Toysrus.com	13	24.1
GameStop	6	20.6
Electronics Boutique	7	16.4
Build-A-Bear Workshop	20	13.3
Circuit City	10	13.1
Target	3	12.8
Best Buy	6	12.7
Michaels Stores	24	10.8
Walgreen	22	10.7

Biggest units increase

Net increases in number of units

Company	Top 25 Rank	Unit Increase

Walgreen	22	320
GameStop	6	193
Electronics Boutique	7	126
Target	3	94
Wal-Mart	1	82
Best Buy	8	67
Build-A-Bear Workshop	20	60
Michaels Stores	24	60
Big Lots	15	45
KB Toys	4	25
Sam's Club	19	25

Percentage increases in number of units

Company	Top 25 rank	Percentage increase
Build-A-Bear Workshop	20	85.7%
GameStop	6	18.6
Electronics Boutique	7	17.3
Best Buy	8	13.8
Target	3	8.9
Walgreen	22	8.7
Michaels Stores	24	8.6
Costco	16	7.0
Sam's Club	19	5.0
Big Lots	15	3.4

Source: Playthings market research

Added $100 million or more in plaything sales in 2002

	Net Increases in Playthings Sales 2001 to 2002
	$ millions
Target	$255.0
GameStop	$231.6
Wal-Mart	$200.0
Electronics Boutique	$149.5

and Proffitt’s department stores this fall. FAO also struck a deal with Borders Group for the book specialist to select, manage and provide inventory for all of its books, music and video departments. Even with the extra effort, FAO officially announced in November that sales have been disappointing and below expectations. In November, FAO engaged an investment banker to assist it in raising capital. By December, the company announced its bankruptcy filing and was conducting liquidation sales in stores, including the flagship store in New York’s Times Square.

The bright spot among the toy specialists is privately held Build-A-Bear Workshop. With $170 million in playthings sales in 2002, Build-A-Bear posted a 13.3 percent increase over its 2001 sales of $150 million. Build-A-Bear is currently launching a campaign to license its brand for consumer products, including toys, books, crafts, home furnishings and apparel, under the guidance of Evergreen Concepts. Build-A-Bear opened its first overseas store in Sheffield, England in November and plans a chain of 50 British stores.

The entertainment/electronics channel continues to gain strength as video and digital games become mainstream mainstays. As a group, the five companies were up an aggregate 17 percent — the biggest gain of any channel — to $3.8 billion, up from $3.2 billion in 2001. Individually, each had double-digit gains, led by Musicland’s whopping 37% increase. Formerly owned by Best Buy, Musicland was purchased by Sun Capital Partners in August.

The 25 Playthings Giants opened 1,129 new stores in 2002, closed 677, for a net gain of 452 stores.

opened 1,129

Closed 677

Net gain 452

The entertainment/electronics specialists made up a 13 percent of this year’s Top 25, a one percentage point increase from their share in 2001. The biggest sales in the channel come from No. 6 GameStop, with $1.3 billion in playthings sales in 2002, a huge 20.6 percent increase over $1.1 billion in 2001. The specialist opened a net of 193 units last year. GameStop completed an initial public offering in February and former parent company, Barnes & Noble, retained a 63 percent interest in the company.

Who owns whom

Top 25 rank in (parenthesis)

Dollar Tree
Dollar Tree
Dollar Express
Dollar Bills
Only One Dollar
Only $ One

FAO, Inc. (9)
FAO Schwarz
The Right Start
Zany Brainy

GameStop (6)
GameStop
Babbage’s
Software Etc.
FuncoLand

KB Toys (4)
KB Toys
KB Toy Works
KB Toy Outlet
KB Toy Liquidator
KB Toy Express
eToys.com

Kroger
Fred Meyer

Mattel
Pleasant Company (11)

Musicland (21)
Musicland
Media Play
Sam Goody
Suncoast

Toys “R” Us
Toys “R” Us (2)
Toysrus.com (12)
Imaginarium.com
Babiesrus.com
Babies “R” Us

Wal-Mart
Wal-Mart Stores (1)
Sam’s Club (19)

No. 7 Electronics Boutique follows close behind GameStop with $1.1 billion in 2002 playthings sales, a 16.4 percent increase over $911 million in 2001. The electronics retailer claims that its sales were driven up by continued strong sales of Sony's Playstation 2 software and a full year of sales from Nintendo's GameCube and Microsoft's Xbox.

Eden Prairie, Minn.-based Best Buy ranks at No. 8 and had $845 million in playthings sales last year. Best Buy entered the downloadable music market in October and is contemplating launching an online gaming initiative in the near future. With $396 million in playthings sales, rival No. 10 Circuit City had a healthy 13 percent increase in playthings sales.

The direct-to-consumer retailers on the Top 25 are No. 11 Pleasant Company with $350 million in playthings sales last year. Owned by publicly held Mattel, this division markets under the American Girl Brand. It operates a retail store in Chicago and opened its second unit in New York City in November.

No. 13 Toysrus.com, the internet arm of publicly held Toys "R" Us, includes three web sites: Toysrus.com, Babiesrus.com and Imaginarium.com. The three sites together achieved playthings sales of $319 million last year, up a robust 24 per cent from $257 million in 2001. Toysrus.com continues its strategic alliance with Amazon.com to assist in fulfillment and web site development.

What's growing?

Change in playthings sales, 2001-2002

[Graph omitted]

Store openings and closings by channel, 2002

[Graph omitted]

JCPenney and general merchandiser Sears make up the department store channel. Together these two retailers had playthings sales of $485 million, down 11.8 percent from $550 million the previous year.

Other channels represented on the Playthings Giants list consist of warehouse clubs, Costco and Sam's Club; the drug store chain Walgreen; the hobby specialist Michaels Stores; and, Hallmark Gold Crown Stores. Michaels had a 10.8 percent increase in playthings sales last year and Walgreen had a 10.7 percent increase. Walgreen's success is in part explained by its opening a net of 320 stores last year.

Store openings, in fact, played a big role in the large sales increases posted by both the "other" stores channel and the entertainment/electronics specialists. Entertainment/ electronics specialty retailers among the Playthings Giants opened a net of 425 new stores in 2002 — contributing significantly to the channels 17% increase in sales.

Stores in the "other" category — Costco, Sam's Club, Walgreen, Michaels and Hallmark — which had a 12% playthings sales increase — opened a net of 225 stores during 2002. During 2002 Walgreen's opened 320 new stores, offset by the closing of 200 Hallmark Gold Crown stores.

Discount department stores on the top 25 closed a net of 61 units — mostly Kmarts. The channel had a slim 1 percent increase in sales.

Toy specialists among the Playthings Giants opened a net of 47 new stores last year. In addition to brick and mortar, the toy specialists are working to expand their sales potential by forming strategic alliances. The jury's still out on the success of these partnerships in pulling the large toy specialists out of their profitability doldrums.

Toy partnerships

Companies	Relationships
FAO (9) and Border's Group	Borders selects, manages and provides inventory for books, music and videos in all FAO Inc. stores.
FAO (9) and Carson Pirie Scott	FAO Schwarz boutiques in Carson Pirie Scott department stores.
FAO (9) and Proffitt's	FAO Schwarz boutiques in Proffitt's department stores.
KB Toys (4) and CVS Pharmacy	KB Toys supplies all toys for CVS stores year round.
KB Toys (4) and Sears (17)	KB Toys departments in Sears stores.
KB Toys (4) and Buy.com	Co-branded toy store on Buy.com.
Toys "R" Us (2) and Albertson's	Toys "R" Us departments in Albertson's supermarkets.
Toysrus.com (12) and Amazon.com	Strategic alliance to assist in fulfillment and development of Toys "R" Us web sites.
Hallmark Gold Crown (25) and Pleasant Co. (11)	Hallmark stores market accessory products based on Pleasant Co.'s historical doll collection.

Playthings Top 25

Company, Headquarters	Estimated Playthings Sales in Millions $ 2002	2001	% Change 2001-2002	Total Number of Stores 2002	2001
1 Wal-Mart, Bentonville, Ark.	**$8,500**	**$8,300**	**2.4%**	**2,826**	**2,744**

Publicly held, fiscal year ended Jan. 31. Sales and store count are for U.S. stores only and exclude Sam's Club locations (ranked separately, see No. 19). Opened 43 discount stores and 192 supercenters in 2002, including 122 discount store conversions. Announced in September its expansion plans for 2004: 50 to 55 new discount stores and 220 to 230 new supercenters, including 140 discount conversions. Launched its six-month deal with Walt Disney Co. this Fall making it the exclusive source through the holidays for toys and other merchandise from the new Kim Possible kids franchise. Sporting goods and toys accounted for 6 percent of 2002 sales, down from 7 percent in 2001 and 2000. Total 2002 sales were $157.1 billion, up 12.9 percent from $139.1 billion in 2001. For the third quarter ended Oct. 31, sales were $42.4 billion, up 12.8 percent from $37.6 billion for the third quarter of 2002.

2 Toys "R" Us, Paramus, N.J.	**$6,615**	**$6,747**	**-2.0%**	**718**	**743**

Publicly held, fiscal year ended Feb. 1. Sales and store count are for U.S. Toys "R" Us units, as well as 37 stand-alone Imaginarium specialty stores. Does not include Toysrus.com or Imaginarium.com sales (ranked separately, see No. 13). Units average 30,000 to 45,000 sq. feet of selling space. Opened four prototype Geoffrey stores last year featuring toys and apparel, as well as an area to hold child parties. Expanded this concept to 17 new Geoffrey's Toys "R" Us stores in four test markets this September. Signed a deal to install 1,100 toy departments in Boise, Idaho-based Albertson's supermarkets in June. Opened eight toy departments in Baltimore, Md.-based Ahold's Giant Food division last year. Completed its Mission Possible store renovations in October 2002. Continued to build its Imaginarium learning category and expanded it to all units in 2002. The Times Square flagship store celebrated its one-year anniversary in November 2002. Total 2002 sales were $6.7 billion, down 1.9 percent from $6.9 billion in 2001. For the second quarter ended Aug. 2, comp store sales decreased 2.4 percent. Announced in November its plans to close all 146 freestanding Kids R Us stores and all 36 freestanding Imaginarium stores by the end of January 2004.

3 Target, Minneapolis	**$2,250**	**$1,995**	**12.8%**	**1,147**	**1,053**

Publicly held, fiscal year ended Feb. 1. Sales and store counts are for U.S. Target stores only, including 94 SuperTargets. Also sells toys through its website Target.com, powered by Amazon.com. Opened 114 new units in 2002, including 32 new SuperTargets. Sales per sq. foot were $278 last year, up from $275 in 2001. Comp store sales for 2002 were up by 2.2 percent. Total 2002 sales were $36.9 billion, up 13.3 percent from $32.6 billion in 2001. For the third quarter ended Nov. 1, sales were $9.64 billion, up 13.9 percent from $8.46 billion in the third quarter of 2002. Operated 1,227 stores at the end of the third quarter.

4 KB Toys, Pittsfield, Mass.	**$2,060**	**$2,030R**	**1.5%**	**1,325**	**1,300**

Privately held, fiscal year ended January. Operates under the names of KB Toys, KB Toy Works, KB Toy Outlet, KB Toy Liquidator, KB Toy Express, KBtoys.com and eToys.com in 50 states, the District of Columbia, Guam and Puerto Rico. In a class action lawsuit settlement, KB changed its price labeling practices and refunded $3 million between Oct. 8 and Oct. 14 by offering all customers a 30 percent at-register discount on purchase of $30 or more. Expanded its "KB Toys at Sears" concept this year to 600 licensed departments in Sears (ranked separately, see No. 17) throughout the U.S. and Puerto Rico. The Sears "store-within-a-store" concept debuted as a 29-store test in 2001 and expanded to 77 stores last year. Became the exclusive toy supplier for CVS/Pharmacy this year, providing year-round merchandise programs, as well as all fulfillment aspects. Partnered with Buy.com in November for a co-branded toy store at Buy.com. Debuted a "bill me later" option on KBtoys.com in November. KB Toys average 3,500 square feet. Operates four distribution centers in Pittsfield, Mass, Montgomery Ala., Glendale, Ariz. and Clinton, N.J. Also operates a fulfillment center for its KBtoys.com and Etoys.com websites in Blairs, Va. Total 2002 sales estimated at $2.06 billion, up 1.5 percent from $2.03 billion in 2001.

All Playthings sales information, except for publicly held companies that break out line-of-business sales for toys, are Playthings market research estimates.

NS=No stores

R=Revised from updated information

All data for calendar year ended Dec. 31, 2002, fiscal year end or trailing 12 months closest to date.

	Company, Headquarters	Estimated Playthings Sales in Millions $ 2002	2001	% Change 2001-2002	Total Number of Stores 2002	2001
5	**Kmart, Troy, Mich.**	**$1,700**	**$1,999**	**-15.0%**	**1,829**	**2,114**
	Publicly held, fiscal year ended Jan. 29. Sales and store counts are for U.S. locations only. Emerged from Chapter 11 bankruptcy protection on May 6 from Jan. 22, 2002 filing. Closed 283 stores last year (270 discount stores and 12 supercenters) and another 316 will close by the end of the year. Expects to return to profitability in 2004. Launched its new branding advertising campaign during the Major League Baseball's World Series in October. The new campaign, "Kmart, Right Here, Right Now," focuses on the new American consumer and has fresh, multi-cultural and urban themes. 2002 sales per square were $212, down from $235 in 2001. Total 2002 sales were $30.8 billion, down 14.9 percent from $36.2 billion in 2001. For the second quarter ended July 30, sales were $5.65 billion, down 21.3 percent from $7.18 billion in the second quarter of 2002.					
6	**GameStop, Grapevine, Texas**	**$1,353**	**$1,121**	**20.7%**	**1,231**	**1,038**
	Publicly held, fiscal year ended Feb. 1. Parent company, Barnes & Noble, completed an initial public offering for the GameStop subsidiary in February and retained an approximate 63 percent interest. Operates under the banners of GameStop, Babbage's, Software Etc. and FuncoLand. Expects to have all stores rebranded to the GameStop name by the end of fiscal 2003. Also sells through its Gamestop.com site and publishes Game Informer, a video game magazine. Acquired a controlling interest in Gamesworld Group Limited, a video game and entertainment software specialist with 11 stores in Ireland in August. Opened 210 stores last year. Total 2002 sales were $1.35 billion, up 20.7 percent from $1.12 billion in 2001. For the second quarter ended Aug. 2, sales were $305.7 million, up 11 percent from $274.3 million in the second quarter of 2002.					
7	**Electronics Boutique, West Chester, Pa.**	**$1,061**	**$ 911R**	**16.4%**	**855**	**729**
	Publicly held, fiscal year ended Feb. 1. Sales and store counts are for U.S. units only. Opened 270 new stores last year. Mall-based stores average 1,200 sq. feet and shopping center-based stores average 1,700 sq. feet. Total 2002 sales were $1.31 billion, up 23.6 percent from $1.06 billion in 2001. Comp store sales for the year increased 8.3 percent. Sales were driven by continued strong sales of Sony's PlayStation 2 software and a full year of sales from Nintendo's GameCube and Microsoft's Xbox. For the second quarter ended Aug. 2, sales were $302.1 million, up 15 percent from $262.6 million in the second quarter of 2002.					
8	**Best Buy, Eden Prairie, Minn.**	**$ 845**	**$ 750**	**12.7%**	**548**	**481**
	Publicly held, fiscal year ended March 1. Sales and store counts are for U.S. Best Buy stores and Bestbuy.com only. Stores average 44,200 sq. feet of selling space. Entertainment software, including video game hardware, video game software and computer software accounted for 22 percent of total sales in 2002 and 2001. Opened a new prototype store in Fall 2002 to serve markets too small to support the average store. Unveiled its new headquarters in Minneapolis in May. Total 2002 sales were $19.3 billion up 12.8 percent from $17.1 billion in 2001. For the second quarter ended Aug. 30, sales were $4.9 billion, up 14.6 percent from $4.3 billion in the second quarter of 2002. Comp store sales increased 7.5 percent for the second quarter.					
9	**FAO, King of Prussia, Pa.**	**$ 410**	**$ 432R**	**-5.1%**	**243**	**256**
	Fiscal year ended Feb. 1. Filed for Chapter 11 bankruptcy on Jan. 13 and emerged on April 23. Filed again for Chapter 11 bankruptcy December 4. Began inventory clearance sales on December 5 in all Zany Brainy. FAO Schwarz and The Right Start stores nationwide. Announced that it will begin immediate liquidation of stores. Sales and store counts are for FAO Schwarz. Right Start and Zany Brainy units. Also sells Right Start merchandise online and through its Right Start catalog, sells Zany Brainy merchandise online; and, sells FAO Schwarz online and through catalogs. As of April, operated 38 Right Start units, 15 FAO Schwarz units and 89 Zany Brainy units in 29 states. FAO Schwarz began selling toys through boutiques in Saks department stores this year. Entered into a partnership with Borders and Walden Books in August. Borders will select, manage and provide the inventory for books, music and video departments in all of FAO Inc.'s stores. FAO Schwarz added children's furniture and home accent products to its flagship store through a P.J. Kids-branded boutique in November. FAO's corporate 2002 sales were $460.4 million, up 86.1 percent from $247.4 million in 2001 when only 20 weeks from Zany Brainy and 4 weeks from FAO Schwarz were included in the company's sales figures. For the second quarter ended Aug. 2, sales were $46.3 million, down 48.5 percent from $90 million in the second quarter of 2002.					

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NS=No stores

R=Revised from updated information

All data for calendar year ended Dec. 31, 2002, fiscal year end or trailing 12 months closes to date.

	Company, Headquarters	Estimated Playthings Sales in millions $ 2002	2001	% Change 2001-2002	Total Number of Stores 2002	2001
10	**Circuit City, Richmond, Va.**	**$396**	**$350**	**13.1%**	**626**	**624**
	Publicly held, fiscal year ended Feb. 28. Operated 611 Superstores and 15 Circuit City Express stores at the end of its fiscal year. Also sells online at Circuitcity.com. Entertainment sales, including video and computer games, accounted for 13 percent of 2002 sales, up from 12 percent in 2001. Sales per sq. foot were $491 in 2002, up from $478 in 2001. Comp store sales increased 4 percent in 2002. Total 2002 sales were $9.95 billion, up 4.6 percent from $9.52 billion in 2001. For the second quarter ended Aug. 31, total sales were $2.16 billion, a 3 percent decrease from $2.22 billion in the second quarter of 2002. Comp store sales decreased 5 percent for the second quarter. At end of second quarter, operated 612 Superstores and 13 mall-based Circuit Express stores in 159 markets.					
11	**Pleasant Company, Middleton, Wisc.**	**$350**	**$341**	**2.8%**	**1**	**1**
	Part of publicly held Mattel, fiscal year ends Dec. 31. Markets under the American Girl brand. Sales are for Pleasant Company's American Girl dolls and accessories and its American Girl retail store and entertainment site in Chicago. A second American Girl retail store in New York City opened in November. Has a licensing agreement with Hallmark Gold Crown Stores to produce exclusive product based on the American Girls Collection. Total 2002 worldwide sales for Mattel were $4.88 billion, up 4 percent over $4.69 billion in 2001. In February, Mattel announced changes in reporting its operations to include the American Girl Brand as a separate operating segment. Through the third quarter ended Sept. 30, the American Girl Brand had sales of $144.3 million, down 4 percent from $150.7 million through the third quarter of 2002.					
12	**Meijer, Grand Rapids, Mich.**	**$340**	**$330**	**3.0%**	**156**	**152**
	Family-owned discount superstore in operation since 1934. Has stores in Illinois, Indiana, Kentucky, Michigan and Ohio. Stores average 200,000 to 250,000 sq. feet and stock about 120,000 items. Has a baby registry. Opened four new units in 2002. Reevaluated its growth plans last year and began focusing on store remodels instead. Store remodels include an interactive video game zone, a reorganization of departments to enhance cross-promotional opportunities, as well as more of an emphasis on brands. Cut 350 salaried jobs in September. Began a pilot program in April to better serve the Hispanic market with new products and new signage. Total 2002 sales were estimated at $10.9 billion, up 9 percent from $10 billion in 2001.					
13	**Toysrus.com, Ft. Lee, N.J.**	**$319**	**$257**	**24.1%**	**NS**	**NS**
	Fiscal year ended Feb. 1. Part of publicly held Toys "R" Us (ranked separately, see No. 2). Sales are for Toysrus.com, Babiesrus.com, Imaginarium.com and Personalizedbyrus.com. Achieved its first operating profit of $3 million in the fourth quarter of 2002. Continued its strategic alliance with Amazon.com, where responsibilities are divided between Amazon and Toysrus.com for all three sites. The alliance expires in 2010. Launched Sportsrus.com, a new sporting goods e-commerce site, in September. Opened Personalizedbyrus.com in November 2002, offering personalized gifts for all ages. Total 2002 sales were $340 million, up 22.7 percent from $277 million in 2001. For the second quarter ended Aug. 2, sales were $51 million, a 21 percent increase over $42 million in the second quarter of 2002.					
14	**JCPenney, Plano, Texas**	**$270**	**$325**	**-16.9%**	**1,049**	**1,075**
	Publicly held, fiscal year ended Jan. 25. Toys are sold through its Big Book catalog, online at JCPenney.com and seasonally within infant and children's departments. Excludes sales from the Eckerd drug store division. Opened three new stores last year and closed 29. Debuted its new off-mall format in November with a 94,000-square-foot unit in Cedar Hill, Texas. Penney will open three test off-mall stores. Catalog sales decreased 22 percent in 2002 and Internet sales increased 17.8 percent. Reinvented its catalog last year resulting in the 530-page 2002 Christmas edition. Closed 40 percent of its catalog fulfillment centers this year. Total 2002 sales were $17.7 billion, down 2.5 percent from $18.2 billion in 2001. For the third quarter ended Oct. 25, sales were $4.34 billion, up 0.8 percent from $4.31 billion in the third quarter of 2002.					

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NS=No stores

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All data for calendar year ended Dec. 31, 2002, fiscal year end or trailing 12 months closest to date.

	Company, Headquarters	Estimated Playthings Sales in Millions $		% Change	Total Number of Stores	
		2002	2001	2001-2002	2002	2001
15	**Big Lots, Columbus, Ohio**	**$250**	**$227R**	**10.1%**	**1,380**	**1,335**
	Publicly held, fiscal year ended Feb. 1. Opened 87 new stores and closed 42 in 2002. Launched its first-ever national television campaign in April. For 2002, comp store sales were up 7.7 percent; customer transactions were up 2.8 percent; and, the value of the average transaction was up 4.9 percent. Experienced strong 2002 gains in domestics, furniture, hardlines, consumables, toys and home decor. Total 2002 sales were $3.9 billion, up 12.7 percent from $3.4 billion in 2001. For the third quarter ended Nov. 1, sales were $948.1 million, up 9.2 percent from $868.2 million in the third quarter of 2002.					
16	**Costco, Issaquah, Wash.**	**$230**	**$210**	**9.5%**	**304**	**284**
	Publicly held, fiscal year ended Sept. 1. Sales and store counts are for U.S. locations only, for the trailing 12 months ended Feb. 17. Toys may be purchased at all warehouse clubs and online at Costco.com. Brands include Barbie, Disney, Fisher-Price, Lego, Hot Wheels and Little Tikes. Opened its first home furnishings prototype store in Kirkland, Wash. in December 2002. For the fiscal year ended Sept. 1, comp store sales were up 6 percent. Headlines, including toys, for fiscal 2002 accounted for 19 percent of total sales, the same as in 2001 and down from 20 percent in 2000. Total 2002 trailing 12 month sales were $39.4 billion, up 9.5 percent from $35.9 billion in 2001. Net sales for fiscal 2003, ended Aug. 31, were $41.7 billion, up 10 percent from $38.0 billion in fiscal 2002. Comp store sales increased 5 percent for fiscal 2003.					
17	**Sears, Hoffman Estates, Ill.**	**$215**	**$225**	**-4.4%**	**872**	**867**
	Publicly held, fiscal year ended Dec. 28. Sales and store counts are for full-line stores only. Full-line stores average 90,000 sq. feet of selling space. Retail store revenues averaged $303 per sq. foot last year, down from $318 in 2001. In October, opened its first off-the-mall stores, Sears Grand stores, in West Jordan, Utah. The Sears Grand format will remain as a pilot program for two years and could eventually replace up to 300 undersized mall stores. Sears Grand includes a year-round toy department and an expanded electronics department, including video games. Completed the rollout of Lands' End in 401 stores in March. Relaunched its Web site with easier navigation in October. Total 2002 sales were $23.0 billion, down 5.3 percent from $24.3 billion in 2001. For the third quarter ended Sept. 27, revenues were $7.34 billion, up 1.1 percent from $7.26 billion in the third quarter of 2002.					
18	**ShopKo, Green Bay, Wis.**	**$190**	**$205**	**-7.3%**	**364**	**366**
	Publicly held, fiscal year ended Feb. 1. Sales and store counts are for ShopKo and Pamida units. ShopKo stores are located in 15 Midwest, Pacific Northwest and Western Mountain states and Pamida stores in 16 Midwest, North Central and Rocky Mountain states. Announced in October its plans to open a ShopKo Express Rx store in the Green Bay, Wis. area, along with two other locations by the Fall of 2004. Hardlines at ShopKo last year, including toys, accounted for 53 percent of total sales, down from 55 percent in 2001. Pamida's hardlines accounted for 67 percent of total sales in 2002, down from 69 percent in 2001. Total 2002 sales were $3.24 billion, down 4 percent from $3.37 billion in 2001. For the second quarter ended Aug. 2, total sales were $764.7 million, down 2.4 percent from $783.4 million in the second quarter of 2002. Three Pamida stores were closed during the second quarter.					
19	**Sam's Club, Bentonville, Ark.**	**$185**	**$180**	**2.8%**	**525**	**500**
	Division of publicly held Wal-Mart, fiscal year ended Jan. 31. Sales and store counts are for Sam's Clubs only (Wal-Mart stores ranked separately, see No. 1). Operates clubs in 48 states. Club average 125,000 sq. feet. Toys are also sold online at Samsclub.com. Opened 25 new units in 2002. Announced its 2004 expansion plans in September: 35 to 40 clubs, 20 of which will be relocations or expansions of existing units. Hardlines, including toys, accounted for 19 percent of 2002 total sales, down from 20 percent in 2001 and 21 percent in 2000. Comp store sales increased 2.3 percent last year. Total 2002 sales were $31.7 billion, up 7.8 percent from $29.4 billion in 2001. For the third quarter ended Oct. 31, sales were $8.6 billion, up 11.2 percent from $7.7 billion for the third quarter of 2002.					

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R=Revised from updated information
All data for calendar year ended Dec. 31, 2002, fiscal year end or trailing 12 months closest to date.

Company, Headquarters		Estimated Playthings Sales in Millions $ 2002	2001	% Change 2001-2002	Total Number of Stores 2002	2001
20	**Build-A-Bear Workshop, Saint Louis, Mo.**	**$170**	**$150**	**13.3%**	**130**	**70**
	Privately-held, fiscal year ended December. As of September, had opened 12 new units. Plans to open at least eight more U.S. units and four Canada units by the end of the year. Long-term plans include 40 to 50 Canadian units and up to 400 in the U.S., with further expansion planned into the United Kingdom, Denmark and Japan. Stores feature wall-mounted bins stocked with empty bear, pony, giraffe, monkey, moose and more shapes, ready to be stuffed. Once stuffed and installed with a red heart containing a personal wish and a special sound, the more than twenty different kinds of animals can be decked out in all manner of costumes, including the latest NBA or WNBA uniforms. Also sold online at www.buildabear.com.					
21	**Musicland, Minnetonka, Minn.**	**$155**	**$113R**	**37.2%**	**1,195**	**1,321**
	Fiscal year ended March 1. Part of publicly held Best Buy (ranked separately, see No. 8) in 2002 and purchased by Sun Capital Partners in August 2003. Operates stores in 48 states, the District of Columbia, the U.S. Virgin Islands and Puerto Rico. Also sells online through the names of Media Play, Sam Goody and Suncoast. Toys include video software, computer software and video hardware. Began changing the name of its On Cue stores to the Sam Goody name last year. Opened 42 new stores and closed 168 in 2002. Gaming accounted for 9 percent of 2002 total revenues, up from 6 percent in 2001. Total 2002 sales were $1.73 billion, down 8.4 percent from $1.89 billion in 2001.					
22	**Walgreen, Deerfield, Ill.**	**$155**	**$140**	**10.7%**	**3,998**	**3,678**
	Fiscal year ended Aug. 31, 2002. Sales and store counts are for the trailing 12 months ended Feb. 28. The nation's largest drugstore chain also sells toys online at www.walgreens.com. General merchandise, including toys, accounted for 29 percent of total sales in fiscal 2002, down from 30 percent in fiscal 2001. Opened 430 new stores during the most recent fiscal year ended Aug. 31. Comp store sales were up 8.6 percent for fiscal 2003. Increased its 24-hour locations from 900 to 1,112 during fiscal 2003. Total 2002 trailing 12 month sales were $30.6 billion, up 14.8 percent from $26.6 billion in 2001. For fiscal 2003 ended Sept. 29, sales were $32.5 billion, up 13.3 percent from $28.7 billion in fiscal 2002.					
23	**Fred Meyer, Portland, Ore.**	**$155**	**$150**	**3.3%**	**133**	**132**
	Part of publicly held Kroger, fiscal year ended Feb. 1. Sales and store counts are for Fred Meyer only. The supercenter pioneer operates units in Alaska, Idaho, Oregon, Utah and Washington. Units average 145,000 sq. feet. Began renovating units this year, including its Tacoma, Wash. and Eugene, Ore., stores. Renovated stores have a redesigned store layout focusing on the three areas of home, food and apparel and also feature new fixtures, checkout stands and expanded departments. The home area occupies nearly one-third of the new stores. Has opened two new units this year, one in Bellingham, Wash. and another in Alaska in April. Total 2002 sales estimated at $4.7 billion, up 2.3 percent from $4.6 billion in 2001.					
24	**Michaels Stores, Irving, Texas**	**$144**	**$130**	**10.8%**	**755**	**695**
	Publicly held, fiscal year ended Feb. 1. Sales and store counts are for Michaels Stores only and do not include Aaron Brothers stores and Star Wholesale stores. Opened 67 new units last year, closed seven and relocated 18. Units average 18,200 sq. feet of selling space. Toys include wooden and plastic model kits and related supplies, kids crafts, plush toys and paint-by-number kits. Opened two ReCollections scrapbooking stores in the Dallas-Fort Worth, Texas area this year. Plans to expand this concept in the Dallas, Phoenix, Atlanta and metro-Washington, D.C. markets in 2004. Total 2002 sales were $2.86 billion, up 12.9 percent from $2.53 billion in 2001. For the third quarter ended Oct. 31, sales were $755 million, up 7 percent from $704.6 million for the third quarter of 2002. Same store sales for the third quarter grew 2 percent.					
25	**Hallmark Gold Crown Stores, Kansas City, Mo.**	**$130**	**$140**	**-7.1%**	**4,300**	**4,500**
	Privately held, fiscal year ended December. Estimated sales and store counts are for Hallmark Gold Crown stores only. A majority of the 4,300 Hallmark Gold Crown stores are independently owned and managed. Stores offer greeting cards, stationery, gift wrap, ornaments, party ware and gifts. Product selections are made by store owners and may include toys, many manufactured by companies other than Hallmark. Hallmark Gold Crown stores market accessory products based on Pleasant Company's historical doll collection through an agreement since 2002 with Mattel. Parent Company, Hallmark Cards had 2002 sales of $4.2 billion, an increase of 5 percent over $4 billion for 2001.					

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NS=No stores

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All data for calendar year ended Dec. 31, 2002, fiscal year end or trailing 12 months closest to date.

Addresses for the top 25

Rank in parenthesis

Best Buy (8)
7075 Flying Cloud Drive
Eden Prairie, MN 55344
Phone: (952) 947-2450
Fax: (612) 292-4001
www.bestbuy.com

Big Lots (15)
300 Phillipi Road
Columbus, OH 43228
Phone: (614) 278-6800
Fax: (614) 278-6666
www.biglots.com

Build-A-Bear Workshop (20)
1954 Innerbelt Business Center Drive
Saint Louis, MO 63114
Phone: (314) 423-8000
Fax: (314) 423-8188
www.buildabear.com

Circuit City (10)
9950 Mayland Drive
Richmond, VA 23233
Phone: (804) 527-4000
Fax: (804) 527-4164
www.circuitcity.com

Costco (16)
999 Lake Drive
Issaquah, WA 98027
Phone: (425) 313-8100
Fax: (425) 313-6430
www.costco.com

Electronics Boutique (7)
931 S. Matlack St.
West Chester, PA 19382
Phone: (610) 430-8100
Fax: (610) 430-6574
www.ebworld.com

FAO (9)
2520 Renaissance Boulevard
King of Prussia, PA 19406
Phone: (610) 292-6600
Fax: (610) 278-7805
www.fao.com

Fred Meyer (23)
3800 S.E. 22nd Ave.
Portland, OR 97202
Phone: (503) 232-8844
Fax: (503) 797-5609
www.fredmeyer.com

GameStop (6)
2250 William D. Tate Ave.
Grapevine, TX 76051
Phone: (817) 424-2000
Fax: (817) 424-2820
www.gamestop.com

Hallmark Gold Crown Stores (25)
2501 McGee St.
Kansas City, MO 64108
Phone: (816) 274-5111
Fax: (816) 274-5061
www.hallmark.com

JCPenney (14)
6501 Legacy Drive
Plano, TX 75024
Phone: (972) 431-1000
Fax: (972) 431-8848
www.jcpenney.com

KB Toys (4)
100 West St.
Pittsfield, MA 1201
Phone: (413) 496-3000
Fax: (413) 496-3616
www.kbtoys.com

Kmart (5)
3100 W. Big Beaver Road
Troy, MI 48084
Phone: (248) 463-1000
Fax: (248) 463-3241
www.kmart.com

Meijer (12)
2929 Walker Ave. N.W.
Grand Rapids, MI 49544
Phone: (616) 453-6711
Fax: (616) 453-6067
www.meijer.com

Michaels Stores (24)
8000 Bent Branch Drive
Irving, TX 75063
Phone: (972) 409-1300
Fax: (972) 409-1556
www.michaels.com

Musicland (21)
10400 Yellow Circle Drive
Minnetonka, MN 55343
Phone: (952) 931-8367
Fax: (952) 931-8145
www.musicland.com

Pleasant Company (11)
8400 Fairway Place
Middleton, WI 53562
Phone: (608) 836-7200
Fax: (608) 828-4780
www.mattel.com

Sam's Club (19)
608 S.W. Eighth St.
Bentonville, AR 72716
Phone: (479) 273-4000
Fax: (479) 277-7526
www.samsclub.com

Sears (17)
3333 Beverly Road
Hoffman Estates, IL 60179
Phone: (847) 286-2500
Fax: (847) 286-4994
www.sears.com

ShopKo (18)
700 Pilgrim Way
Green Bay, WI 54304
Phone: (920) 429-2211
Fax: (920) 429-4133
www.shopko.com

Target (3)
33 S. Sixth St.
Minneapolis, MN 55440
Phone: (612) 304-6073
Fax: (612) 696-3731
www.target.com

Toys "R" Us (2)
461 From Road
Paramus, NJ 07652
Phone: (201) 262-7800
Fax: (973) 617-4006
www.toysrus.com

Toysrus.com (13)
461 From Road
Fr. Lee, NJ 07652
Phone: (201) 262-7800
Fax: (973) 617-3017
www.toysrus.com

Walgreen (22)
200 Wilmot Road
Deerfield, IL 60015
Phone: (847) 940-2500
Fax: (847) 914-3134
www.walgreens.com

Wal-Mart (1)
702 S.W. Eighth St.
Bentonville, AR 72716
Phone: (479) 273-4000
Fax: (479) 273-4329
www.wal-mart.com

Contenders

Playthings has ranked the Top 50 Playthings retailers since 1999. This year, for the first time, an editorial decision was made to rank only the Top 25. This is a direct result of the change in the toy retail atmosphere as the major players have been consolidating and filing for bankruptcy, as well as the overall downturn in the U.S. economy. As a result, we are presenting a list of contenders for the Top 25, all still vital players within the toy market.

In fact, the 14 contenders, as a group, outperformed the top 25 in sales growth. The 14 had an aggregate playthings sales increase of 12% in 2002, compared with a 2% increase for the Top 25.

Our contenders consist of toy specialists, discounters, entertainment/electronics specialists, hobby/craft specialists, warehouse clubs, kids specialists, military PXs and direct-to-consumer retailers.

Discount department stores, specifically the “dollar store” breed, and hobby/craft specialists fared the best among our contenders, both experiencing double-digit growth in playthings sales. Chesapeake, Va.-based Dollar Tree Stores registered the largest growth among the contenders, a 17 percent increase in playthings sales, $55 million in 2002 versus $47 million in 2001. The discounter opened a net of 288 stores in 2002. Another discounter, Family Dollar, experienced a 16.7 percent increase in playthings sales last year, spurred by opening a net of 454 stores.

Hobby Town USA, the Lincoln, Neb.-based franchiser, sold $108 million in playthings sales last year, a 15.1 percent increase of its 2001 playthings sales of $94 million. Toys at Hobby Town include radio-controlled vehicles, activity toys, computer games, electronic train sets and accessories, games, puzzles and outdoor toys.

14 contenders had playthings sales of $963.5 million in 2002 — an increase of 12% over their 2001 playthings sales.

Hobby Lobby, the Oklahoma, Okla.-based hobby specialist, garnered $48 million in playthings sales in 2002. The privately-held retailer opened a net of 41 units last year.

Another contender with double-digit growth is Babies “R” Us. The kids specialist pulled in $91 million in playthings sales last year, a 13.7 percent increase over $80 million in 2001. Toys consist of infant and toddler toys, including the Lamaze, Fisher-Price and Safety 1st brands. The strategy employed by Babies “R” Us is to win customers over before they even give birth.

The toy specialists on our contenders list include Learning Express, Disney Stores and Vermont Teddy Bear. Learning Express, the Ayer, Mass.-based franchiser, experienced a 10 percent drop in playthings sales, pulling in $90 million last year compared with $100 million in 2001. The specialist closed a net of 24 stores last year.

Disney Stores garnered $59 million in 2002 playthings sales, a 1.7 percent increase over $58 million in 2001. The specialist, which has been tinkering with its merchandise mix for several years in an attempt to boost profitability, had closed 75 stores by the end of September 2002. It is in the process of trimming its headquarters’ staff and store numbers to make the chain more attractive to potential buyers.

Shelburn, Vt.-based Vermont Teddy Bears had $38 million in playthings sales last year, flat with 2001. This toy specialist has expanded its reach to include a PajamaGram and a TastyGram service. Vermont Teddy Bears further diversified this September by purchasing fresh-flowers cataloger Calyx & Corolla.

Moving steadily up the list of contenders in BJ’s Wholesale Club. This warehouse club had playthings sales of $65 million last year. It’s total sales have climbed consistently, reaching $5.7 billion in 2002, a 12.2 percent increase over 2001. BJ’s opened 13 new units last year and plans to open 12 or 13 new units by the end of its fiscal year.

Playthings Contenders

Company, Headquarters	Estimated Playthings Sales in Millions $ 2002	2001	% Change 2001-2002	Total Number of Stores 2002	2001
Army & Air Force Exchange Service, Dallas	**$ 86**	**$ 91**	**-4.8%**	**139**	**144**
Sales are based on worldwide revenues, excluding food, services and vending. Serves active-duty military personnel, guard and reservists, retirees and their families. Has more than 160 main stores or shopping centers worldwide and in every state. Also sells through catalogs and online. AAFES funds its operating budget solely from the sales of merchandise, food and services and receives no funding from the Department of Defense. Sales of bicycles are excluded from both the 2002 and 2001 toy figure. Total 2002 worldwide revenues were $6.45 billion, up 3 percent from $6.25 billion in 2001.					
Babies "R" Us, Paramus, N.J.	**$ 91**	**$ 80R**	**13.7%**	**183**	**165**
Fiscal year ended Feb. 1. Part of publicly held Toys "R" Us (ranked separately, see No. 2). Sales and store counts are for U.S. Babies "R" Us stores only. Does not include Babiesrus.com sales (ranked separately as part of Toysrus.com, see No. 12). Opened 19 new stores last year. Toy selection includes infant, toddler and preschool toys, including the Lamaze, Fisher-Price, Safety 1st, Tomy, Evenflo and Hasbro brands. Total 2002 sales were $1.6 billion, up 12.2 percent from $1.4 billion in 2001. For the second quarter ended Aug. 2, sales increased 13 percent and comp store sales increased 4.2 percent. Five new stores had opened through the second quarter, with approximately 10 more to open during the fiscal year.					
BJ's Wholesale, Natick, Mass.	**$ 65**	**NA**	**NA**	**140**	**130**
Publicly held, fiscal year ended Feb. 1. Operates clubs in 16 states. Opened 13 new units last year and closed three. Entered the Atlanta market last year with four new prototype clubs. Plans to open 12 or 13 new units this year, all of which are expected to be in existing markets. At the end of its second quarter, four clubs had opened. Repositioned itself to focus on the retail consumer this year, particularly to meet the needs of married women with families. General merchandise, including toys, accounted for 39 percent of 2002 total sales. Comp stores sales increased 2 percent last year. Total 2002 sales were $5.73 billion, up 12.2 percent from $5.11 billion in 2001. For the second quarter ended Aug. 2, sales were $1.64 billion, up 13.9 percent from $1.64 billion in the second quarter of 2002.					
Discovery Toys, Livermore, Calif.	**$ 37**	**$ 39R**	**-5.1%**	**NS**	**NS**
Publicly-held, fiscal year ended Dec. 31. Estimates for U.S. sales only. Direct-selling company offering more than 200 products including toys, games, books and software through some 30,000 independent educational consultants in the U.S. and Canada. Acquired by Eos International in 2001 in a reverse merger with Discovery Toys becoming the focus of the company. Shareholders of Discovery Toys hold a majority stake in Eos. Introduces nearly 80 new products each year. The marketing strategy for 2003 includes focusing on the Hispanic, African American and Asian populations in the U.S. Total 2002 revenues for parent company Eos International were $95 million, up 114 percent over $44.3 million in 2001.					
Disney Stores, Glendale, Calif.	**$ 59**	**$ 58**	**1.7%**	**406**	**482**
Publicly held, fiscal year ended Sept. 30. Sales and store counts are based on the trailing 12 months ending Dec. 31. Markets Disney products and services through retail stores as part of its Consumer Products division. Continues to test a new merchandising strategy, Disney Play, that started in 2001 focusing on toys, dress-ups and plush. Closed 75 store locations by the end of September 2002. Announced in the spring its plan to trim headquarters' staff by 20 percent and store numbers in North America to fewer than 300 in preparation for the possible sale of the chain. Plans include restructuring stores to sell high-end merchandise in an effort to set them apart from other direct distribution partners including Kmart, JCPenny and Wal-Mart. Total 2002 trailing 12 revenues for all segments were $25.8 billion, up 4 percent from $24.8 billion in 2001.					

All Playthings sales information, except for publicly held companies that break out line-of-business sales for toys, are Playthings market research estimates.

NS = No stores
R = Revised from updated information
All data for calendar year ended Dec. 31, 2002, fiscal year end or trailing 12 months closest to date.

Company, Headquarters	Estimated Playthings Sales in Millions $ 2002	2001	% Change 2001-2002	Total Number of Stores 2002	2001
Dollar Tree Stores, Chesapeake, Va.	**$ 55**	**$ 47**	**17.0%**	**2,263**	**1,975**
Publicly held, fiscal year ended Dec. 31. Operates under the names of Dollar Tree, Dollar Express, Dollar Bills, Only One Dollar and Only $One. Mall-based stores range between 1,500 and 2,500 sq. feet of selling space and strip center-based average between 8,000 and 10,000 sq. feet. Acquired Greenbacks, a Salt Lake City-based dollar-store chain on June 29. Opened a new 603,000 sq. foot automated distribution center in Marietta, Okla. in February. Its variety segment, including toys, had 2002 sales of $1.18 billion in 2002, up 17.4 percent from $1.01 billion in 2001. Total 2002 sales were $2.33 billion, up 17.2 percent from $1.99 billion in 2001. For the third quarter ended Nov. 1, sales were $665.2 million, up 19.4 percent from $556.9 million in the third quarter of 2002. Operated 2,511 stores at the end of the third quarter.					
Family Dollar, Matthews, N.C.	**$105**	**$ 90**	**16.5%**	**4,753**	**4,299**
Fiscal year ended Aug. 31, 2002. Sales and store counts are for the trailing 12 months ended March 1. Hardlines, including toys, accounted for 76.4 percent of fiscal 2002 sales, up form 74.5 percent in fiscal 2001. For the most recent fiscal year ended Aug. 30, the discount chain opened 475 new stores and closed 64. At the end of August 5,026 stores were operating in 43 states. Total trailing 12 months sales for 2002 were $4.4 billion, up 14.3 percent from $3.9 billion in 2001. Fiscal 2003 sales were $4.8 billion, up 14.1 percent from $4.2 billion in fiscal 2002. The customer count increased 3.9 percent for fiscal 2003 and the average transaction increased 0.5 percent to $8.66.					
Hobby Lobby Stores, Oklahoma City	**$ 48**	**$ 42**	**14.3%**	**308**	**267**
Privately held, fiscal year ended Dec. 31. Stores average between 48,000 and 55,000 sq. feet. Also sells online at www.hobbylobby.com. The family-owned company was founded in 1972 and operates units in 27 Midwestern and Southern states. All stores are closed on Sundays. The hobby retailer stocks more than 60,000 items. Toy products include wooden and plastic cars and accessories, puzzles, kids crafts, dollhouses and accessories, train sets, paint kits and stickers. Total 2002 sales were estimated at $1.16 billion, up 14.6 percent form $1.11 billion in 2001.					
Hobby Town USA, Lincoln, Neb.	**$108**	**$ 94**	**15.1%**	**138**	**130**
Franchised hobby and toy retailer. Founded in Lincoln, Neb., in 1980. Has been franchising since 1985. The company motto is “Building Your Dream.” Units average 3,300 sq. feet. Also sells online at www.hobbytown.com. Sells radio-controlled vehicles, activity toys, computer games, electric train sets/accessories, games, puzzles and outdoor toys. Publishes a quarterly magazine, Hobby Outlook Magazine, with information on hobbies and in-store coupons. Also offers an email newsletter to subscribers.					
Home Shopping Network, St. Petersburg, Fla.	**$ 31**	**$ 32**	**-3.1%**	**NS**	**NS**
Fiscal year ended Dec. 31. Owned by InterActive Corp., the company that also owns Ticketmaster, the ticket retailer, Match.com, the online dating service, Citysearch, the online local city guides, and a 64 percent stake in Expedia, the online travel firm. Operates two retail sales programs in the U.S., each 24 hours a day, seven days a week. HSN and America’s Store. Home Shopping Network was available in approximately 78.5 million unduplicated houses at the end of its fiscal year. Toys are also available via its Website, www.hsn.com. Sells video software, video hardware, radio-controlled cars, dolls and plush. Unveiled its more interactive web site in November. Total 2002 sales were $1.61 billion, down 2.9 percent from $1.66 billion in 2001.					
Learning Express, Ayer, Mass.	**$ 90**	**$100R**	**-10.0%**	**120**	**144**
Franchised toy retailer with more than 100 stores in 35 states offering educational and developmental toys for infants and preschoolers. Toys include arts and crafts, spy gear from Wild Planet and construction toys. Among the lines carried are Groovy Girls. Thomas the Tank Engine, Playmobil, Brio, Felt Kids, Hello Kitty, Lamaze and Madeline. Offers online purchasing, promoting it as “your neighborhood toy store, online.” Orders placed through the online store are routed to the appropriate franchise located for fulfillment. Experienced a 300 percent increase in online revenue during 2002.					

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NS=No stores

R=Revised from updated information

All data for calender year ended Dec. 31, 2002, fiscal year end or trailing 12 months closest to date.

Company, Headquarters	Estimated Playthings Sales in Millions $ 2002	2001	% Change 2001-2002	Total Number of Stores 2002	2001
QVC, West Chester, Pa.	**$125**	**$120**	**4.0%**	**8**	**7**
Part of publicly traded Comcast, fiscal year ended Dec. 31. Comcast completed its sale of its approximate 57 percent stake in QVC in September. QVC is now 98 percent owned by Liberty Media. Sales and store counts are for QVC only. Toys may be purchased via its cable channel, online at www.qvc.com and through its stores and outlet stores. Operates its 2,500-sq. foot flagship store at Minnesota's Mall of America, its Studio Store in West Chester, Penn., and six outlet stores in Pennsylvania, Delaware, South Carolina and Florida. Is received by approximately 94 percent of all U.S. cable television homes and substantially all satellite television homes in the U.S. Adds approximately 194,000 new customers each month. Has eight distribution centers worldwide. Total 2002 sales were $3.92 billion, up 10.8 percent from $3.54 billion in 2001.					
RadioShack, Fort Worth, Texas	**$ 64**	**$ 63**	**1.6%**	**7,213**	**7,373**
Publicly held, fiscal year ended Dec. 31. The personal electronics/toys/personal audio segment accounted for 12.8 percent of 2002 sales, up from 12.1 percent in 2001. The increase was due primarily to increased sales of micro radio controlled cars and related accessories. Brands sold include Zip Zaps, PlayStation, Game Boy, Xbox and LeapFrog. Discontinued commercial electronics parts, car stereos, security systems, pagers and TVs larger than 27 inches in January. Comp store sales were down 1 percent in 2002. Total 2002 sales were $4.58 billion, down 4.2 percent from $4.78 billion in 2001. For the third quarter ended Sept. 30, sales were $1,064 million, up 2 percent from $1,047 million in the third quarter of 2002. Comp store sales were up 3 percent for the third quarter.					
Vermont Teddy Bear, Shelburne, Vt.	**$ 38**	**$ 38**	**0.0%**	**2**	**1**
Publicly held, fiscal year ended June 30, 2002. Sales and store count are for the trailing 12 months ended Dec. 31. Estimates do not include sales from the PajamaGram Service and the TastyGram Service. The company manufacturers and sells handcrafted teddy bears through its two stores, catalogs and website. Approximately 55 percent of its orders are received via its web site. VermontTeddyBear.com. Opened its second retail store in Waterbury, Vt. in June 2002. Valentine's Day accounted for 29 percent of fiscal 2003 orders, followed by Mother's Day at 16 percent. Purchased the net assets of fresh-flowers cataloger Calyx & Corolla in September. Total 2002 trailing 12 month sales were $40 million, up 5.3 percent from $38 million in 2001.					

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NS=No stores

R=Revised from updates information

All data for calendar year ended Dec. 31, 2002, fiscal year end or trailing 12 months closest to date.

Addresses for the Contenders

Army & Air Force Exchange Service
3911 S. Walton Walker Blvd.
Dallas, TX 75236-1598
Phone: (214) 312-3861
Fax: (214) 312-6606
www.aafes.com

Babies “R” Us
461 From Road
Paramus, NJ 07652
Phone: (201) 262-7800
Fax: (973) 617-4007
www.babiesrus.com

BJ’s Wholesale
1 Mercer Road
Natick, MA 01760
Phone: (508) 651-6214
Fax: (508) 651-6623
www.bjswholesale.com

Discovery Toys
6400 Brisa St.
Livermore, CA 94550
Phone: (925) 606-2600
Fax: (925) 294-8143
www.discoverytoysinc.com

Disney Stores
101 N Brand Blvd., Suite 1000
Glendale, CA 91203
Phone: (818) 265-3435
Fax: (818) 567-5330
www.disney.com

Dollar Tree Stores
PO Box 2500
Chesapeake, VA 23501-2500
Phone: (757) 321-5000
Fax: (757) 321-5111
www.dollartreestoresinc.com

Family Dollar
10401 Old Monroe Road
Matthews, NC 28105
Phone: (704) 847-6961
Fax: (704) 847-0189
www.familydollar.com

Hobby Lobby Stores
7707 SW 44th St.
Oklahoma City, OK 73179
Phone: (405) 745-1100
Fax: (405) 745-1547
www.hobbylobby.com

Hobby Town USA
6301 S 58th St.
Lincoln, NE 68516
Phone: (402) 434-5055
Fax: (402) 434-5055
www.hobbytown.com

Home Shopping Network
1 HSN Drive
St. Petersburg, Fl 33729
Phone: (727) 872-5910
Fax: (727) 782-7070
www.hsn.com

Learning Express
20 Buena Vista St.
Ayer, MA 1432
Phone: (978) 889-1000
Fax: (978) 889-1010
www.learningexpress.com

QVC
1200 Wilson Drive, Studio Park
West Chester, PA 19380
Phone: (484) 701-1000
Fax: (484) 701-8170
www.qvc.com

RadioShack
100 Throckmorton, Suite 1800
Forth Worth, TX 76102
Phone: (817) 415-3011
Fax: (817) 415-6508
www.radioshack.com

Vermont Teddy Bear
6655 Shelburne Rd
Shelburne, VT 05482
Phone: (802) 985-3001
Fax: (802) 985-1382
www.vtbear.com

Behind the Numbers

Playthings’ exclusive survey of the Top 25 Playthings Giants ranks the Top 25 U.S. retailers by their estimated 2002 playthings sales. Retailers were considered for the ranking if they carry more than one toy category.

Playthings decided to rank only the Top 25 retailers, rather than the Top 50, for the first time since the ranking began in 1999. This is a direct result of the change in the toy retail atmosphere as the major players have been consolidating and filing for bankruptcy, as well as the overall downturn in the U.S. economy.

Retailers are ranked by their estimated 2002 sales of traditional toys, including electronic interactive toys and video and computer games. In some cases, sales figures may include a portion of sales for some sporting equipment (for example scooters, skateboards, baseball bats, basketballs) or bicycles and related equipment, due to how those retailers organize their departments.

Data is based on fiscal years ended Dec. 30, 2002, unless otherwise noted. All sales figures, except those of publicly held companies which break out toy sales as a separate line of business, are *Playthings* market research estimates.

Estimates were derived from a variety of sources, including the companies themselves, public company filings with the Securities and Exchange Commission, discussions with industry analysts and suppliers, as well as published and unpublished reports, including newspaper articles in various retailing areas.

In cases where companies have identical estimated plaything sales, the one with the fastest sales growth is ranked first.

Director of Market Research Kay Anderson, Research Specialists Dana French and Judi Fulbright, and Database Coordinator Cynthia Myers compiled the data for this report.

Playthings Giants by Distribution Channel

		Estimated Playthings Sales in Millions			Number of Stores		Total Sales in Millions	
Rank	**Company**	**2002**	**2001**	**Change**	**2002**	**2001**	**2002**	**2001**
Department stores								
14	JCPenney	$ 270	$ 325	-17%	1,049	1,075	$ 17,704	$ 18,157
17	Sears	$ 215	$ 225	-4%	872	867	$ 23,028	$ 24,314
Discount department stores								
1	Wal-Mart	$8,500	$8,300	2%	2,826	2,744	$157,121	$139,131
3	Target	$2,250	$1,995	13%	1,147	1,053	$ 36,917	$ 32,588
5	Kmart	$1,700	$1,999	-15%	1,829	2,114	$ 30,762	$ 36,151
12	Meijer	$ 340	$ 330	3%	156	152	$ 10,600	$ 11,900
15	Big Lots	$ 250	$ 227	10%	1,380	1,335	$ 3,869	$ 3,433
18	ShopKo	$ 190	$ 205	-7%	364	366	$ 3,240	$ 3,374
23	Fred Meyer	$ 155	$ 150	3%	133	132	$ 4,740	$ 4,632
Direct-to-consumer								
13	Toysrus.com	$ 319	$ 257	24%	NS	NS	$ 340	$ 277
11	Pleasant Company	$ 350	$ 341	3%	1	1	$ 3,445	$ 3,414
Entertainment electronics specialists								
6	GameStop	$1,353	$1,212	21%	1,231	1,038	$ 1,353	$ 1,121
7	Electronics Boutique	$1,061	$ 911	16%	855	729	$ 1,061	$ 911
8	Best Buy	$ 845	$ 750	13%	548	481	$ 19,303	$ 17,115
10	Circuit City	$ 396	$ 350	13%	626	624	$ 9,954	$ 9,518
21	Musicland	$ 155	$ 113	37%	1,195	1,321	$ 1,727	$ 1,886
Other								
16	Costco	$ 230	$ 210	10%	304	284	$ 39,419	$ 35,984
19	Sam’s Club	$ 185	180	3%	525	500	$ 31,702	$ 29,395
22	Walgreen	$ 155	$ 140	11%	3,998	3,678	$ 30,564	$ 26,628
24	Michaels Stores	$ 144	$ 130	11%	755	695	$ 2,856	$ 2,531
25	Hallmark Gold Crown	$ 130	$ 140	-7%	4,300	4,500	$ 4,200	$ 4,000
Toy specialists								
2	Toys “R” Us	$6,615	$6,747	-2%	718	743	$ 6,743	$ 6,877
4	KB Toys	$2,060	$2,030	1%	1,325	1,300	$ 2,060	$ 2,030
9	FAO	$ 410	$ 432	-5%	243	256	$460,415	$247,365
20	Build-A-Bear Workshop	$ 170	$ 150	13%	130	70	$ 170	$ 150

All Playthings sales information, except for publicly held companies that break out line-of-business sales for toys, are Playthings market research estimates.

NS=No stores

R=Revised from updated information

All data for calendar year ended Dec. 31, 2002, fiscal year end or trailing 12 months closest to date.

Exhibit B

BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Members' equity			Stockholders' equity						
				Nonredeemable preferred stock						
	Class A units	Class B units	Class C units	Class A	Class B	Class C	Common stock	Additional paid-in capital	Retained earnings	Total
Balance, January 1, 2000	$ —	6,098,617	3,467,580	—	—	—	—	500,000	—	10,066,197
Issuance of Class A units	77,390	—	—	—	—	—	—	—	—	77,390
Stock-based compensation	—	—	—	—	—	—	—	300,000	—	300,000
Net loss from January 2, 2000, through April 2, 2000	(77,390)	(724,345)	(450,001)	—	—	—	—	—	—	(1,251,736)
Conversion from LLC to C Corporation on April 3, 2000	—	(5,374,272)	(3,017,579)	24,450	20,394	49,981	2,175	8,294,851	—	—
Record interest on note receivable	—	—	—	—	—	—	—	—	—	—
Record cumulative dividends and accretion of redeemable preferred stock	—	—	—	—	—	—	—	—	(343,454)	(343,454)
Net income from April 3, 2000, through December 30, 2000	—	—	—	—	—	—	—	—	1,699,127	1,699,127
Balance, December 30, 2000	$ —	—	—	24,450	20,394	49,981	2,175	9,094,851	1,355,673	10,547,524

Exhibit C

Stock Option Grants

The following table summarizes all stock options granted by the Company from the beginning of fiscal 2003 through September 14, 2004.

Date of Grant/Optionee	Number of Options	Exercise Price	Deemed Fair Value	2003 Deferred Compensation	2004 Deferred Compensation
April 24, 2003					
Maxine Clark	36,234	9.10	9.10		
Brian Vent	30,000	9.10	9.10		
Tina Klocke	25,000	9.10	9.10		
Jack Burtelow	20,000	9.10	9.10		
Teresa Kroll	20,000	9.10	9.10		
Harold Brooks	20,000	9.10	9.10		
Scott Seay	20,000	9.10	9.10		
Ken Hicks	7,500	9.10	9.10		68,250.00(1)
Officers and Directors- total	178,734				
Other employees	92,750	9.10	9.10		
Total Options Granted	271,484				
March 16, 2004					
Maxine Clark	36,234	8.78	8.78		
Tina Klocke	25,000	8.78	8.78		
Jack Burtelow	20,000	8.78	8.78		
Teresa Kroll	20,000	8.78	8.78		
Harold Brooks	2,500	8.78	8.78		
Scott Seay	20,000	8.78	8.78		
Officers and Directors- total	123,734				
Other employees	78,500	8.78	8.78		
Total Options Granted	202,234				
April 26, 2004					
Barry Erdos	100,000	8.78	8.78		

Note: There were no stock options granted other than to employees and directors in 2003 and 2004 to-date.

(1) The Company accelerated vesting of these options and allowed the directors to exercise the options in a cashless transaction.

Exhibit D

[Confidential treatment requested for this exhibit including the schedules hereto.]