
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 29, 2013

OR

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

For the transition period from _____ to _____

Commission file number: 001-32320

BUILD-A-BEAR WORKSHOP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

43-1883836
(IRS Employer
Identification No.)

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

63114
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of August 5, 2013, there were 17,260,007 issued and outstanding shares of the registrant's common stock.

BUILD-A-BEAR WORKSHOP, INC.
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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share and per share data)

	<u>June 29, 2013</u>	<u>December 29, 2012</u>	<u>June 30, 2012</u>
	(Unaudited)		(Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 28,061	\$ 45,171	\$ 26,450
Inventories	48,134	46,904	47,029
Receivables	6,866	9,428	4,935
Prepaid expenses and other current assets	13,115	14,216	13,604
Deferred tax assets	269	987	469
Total current assets	<u>96,445</u>	<u>116,706</u>	<u>92,487</u>
Property and equipment, net of accumulated depreciation of \$180,364, \$189,134 and \$181,892, respectively	68,273	71,459	73,518
Goodwill	-	-	32,643
Other intangible assets, net	611	633	595
Other assets, net	3,258	3,304	6,704
Total Assets	<u>\$ 168,587</u>	<u>\$ 192,102</u>	<u>\$ 205,947</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 33,897	\$ 38,984	\$ 24,253
Accrued expenses	8,547	11,570	7,227
Gift cards and customer deposits	24,744	30,849	22,848
Deferred revenue	4,892	4,800	5,568
Total current liabilities	<u>72,080</u>	<u>86,203</u>	<u>59,896</u>
Deferred franchise revenue	1,057	1,177	1,301
Deferred rent	18,099	20,843	22,075
Other liabilities	570	742	257
Stockholders' equity:			
Preferred stock, par value \$0.01, Shares authorized: 15,000,000; No shares issued or outstanding at June 29, 2013, December 29, 2012 and June 30, 2012	-	-	-
Common stock, par value \$0.01, Shares authorized: 50,000,000; Issued and outstanding: 17,271,671, 17,068,182 and 17,386,393 shares, respectively	173	171	174
Additional paid-in capital	67,225	66,112	66,060
Accumulated other comprehensive loss	(8,949)	(7,683)	(9,082)
Retained earnings	18,332	24,537	65,266
Total stockholders' equity	<u>76,781</u>	<u>83,137</u>	<u>122,418</u>
Total Liabilities and Stockholders' Equity	<u>\$ 168,587</u>	<u>\$ 192,102</u>	<u>\$ 205,947</u>

See accompanying notes to condensed consolidated financial statements.

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

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Revenues:				
Net retail sales	\$ 80,395	\$ 78,989	\$ 183,326	\$ 174,189
Commercial revenue	750	705	1,223	1,081
Franchise fees	757	716	1,618	1,513
Total revenues	<u>81,902</u>	<u>80,410</u>	<u>186,167</u>	<u>176,783</u>
Costs and expenses:				
Cost of merchandise sold	51,169	51,704	111,640	109,170
Selling, general and administrative	36,901	37,075	80,636	77,201
Interest expense (income), net	(55)	(63)	(106)	(149)
Total costs and expenses	<u>88,015</u>	<u>88,716</u>	<u>192,170</u>	<u>186,222</u>
Loss before income taxes	(6,113)	(8,306)	(6,003)	(9,439)
Income tax expense (benefit)	105	(755)	202	(871)
Net loss	<u>\$ (6,218)</u>	<u>\$ (7,551)</u>	<u>\$ (6,205)</u>	<u>\$ (8,568)</u>
Foreign currency translation adjustment	71	(1,393)	(1,266)	1,083
Comprehensive loss	<u>\$ (6,147)</u>	<u>\$ (8,944)</u>	<u>\$ (7,471)</u>	<u>\$ (7,485)</u>
Loss per common share:				
Basic	<u>\$ (0.38)</u>	<u>\$ (0.46)</u>	<u>\$ (0.38)</u>	<u>\$ (0.53)</u>
Diluted	<u>\$ (0.38)</u>	<u>\$ (0.46)</u>	<u>\$ (0.38)</u>	<u>\$ (0.53)</u>
Shares used in computing common per share amounts:				
Basic	16,460,474	16,458,889	16,345,882	16,248,884
Diluted	16,460,474	16,458,889	16,345,882	16,248,884

See accompanying notes to condensed consolidated financial statements.

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

	Twenty-six weeks ended	
	June 29, 2013	June 30, 2012
Cash flows from operating activities:		
Net loss	\$ (6,205)	\$ (8,568)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,677	10,636
Stock-based compensation	1,618	2,013
Deferred taxes	(34)	(740)
Loss from investment in affiliate	-	475
Impairment of store assets	649	191
Trade credit utilization	245	198
Loss on disposal of property and equipment	288	352
Change in assets and liabilities:		
Inventories	(1,733)	4,889
Receivables	2,740	2,959
Prepaid expenses and other assets	904	1,479
Accounts payable and accrued expenses	(7,004)	(21,677)
Lease related liabilities	(2,635)	(1,820)
Gift cards and customer deposits	(5,960)	(5,506)
Deferred revenue	(12)	149
Net cash used in operating activities	<u>(7,462)</u>	<u>(14,970)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(8,864)	(8,011)
Purchases of other assets and other intangible assets	(152)	(293)
Proceeds from sale or maturity of short term investments	-	2,647
Investment in unconsolidated affiliate	-	(475)
Cash used in investing activities	<u>(9,016)</u>	<u>(6,132)</u>
Cash flows from financing activities:		
Exercise of employee stock options and employee stock purchases	103	-
Cash provided by financing activities	103	-
Effect of exchange rates on cash	(735)	1,185
Net decrease in cash and cash equivalents	(17,110)	(19,917)
Cash and cash equivalents, beginning of period	45,171	46,367
Cash and cash equivalents, end of period	<u>\$ 28,061</u>	<u>\$ 26,450</u>

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared by Build-A-Bear Workshop, Inc. and its subsidiaries (collectively, the Company) pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet of the Company as of December 29, 2012 was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and reflect all adjustments which are, in the opinion of management, necessary to summarize fairly the financial position of the Company and the results of the Company's operations and cash flows for the periods presented. All of these adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. As a toy retailer, the Company's sales are highest in the fourth quarter, followed by the first quarter. The timing of holidays and school vacations can impact quarterly results. Because of the seasonal nature of the Company's operations, results of operations of any single reporting period should not be considered as indicative of results for a full year. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended December 29, 2012 that were included in the Company's annual report on Form 10-K filed with the SEC on March 14, 2013.

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

2. Prepaid Expenses and Other Assets

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

	June 29, 2013	December 29, 2012	June 30, 2012
Prepaid rent	\$ 7,964	\$ 8,736	\$ 8,038
Prepaid income taxes	237	-	692
Other	4,914	5,480	4,874
	<u>\$ 13,115</u>	<u>\$ 14,216</u>	<u>\$ 13,604</u>

3. Property and Equipment

In 2012, the Company initiated a turnaround plan that includes the closure of a number of stores. The Company considers a more likely than not assessment that an individual location will close as a triggering event to review the store asset group for recoverability. As a result of this review for the first and second quarters of fiscal 2013, it was determined that certain stores would not be able to recover the carrying value of store leasehold improvements through expected undiscounted cash flows over the shortened remaining life of the related assets. Accordingly, the carrying value of the assets was reduced to fair value, calculated as the estimated future cash flows for each asset group, and asset impairment charges of \$0.2 million and \$0.6 million were recorded in the thirteen weeks and twenty-six ended June 29, 2013, respectively, which are included in selling, general and administrative expenses as a component of loss before income taxes in the Retail segment. The inputs used to determine the fair value of the assets are Level 3 inputs as defined by ASC section 820-10. Any remaining net book value is depreciated over the shortened expected life. The thirteen and twenty-six weeks ended June 30, 2012, included similar impairment charges of \$0.2 million.

4. Stock-based Compensation

The following table is a summary of the balances and activity for restricted stock and stock options for the twenty-six weeks ended June 29, 2013:

	Restricted Stock	Options
Outstanding, December 29, 2012	860,325	1,155,239
Granted	321,540	195,512
Vested	395,614	—
Exercised	—	19,327
Forfeited	21,078	14,967
Canceled or expired	—	41,150
Outstanding, June 29, 2013	<u>765,173</u>	<u>1,275,307</u>

For the thirteen and twenty-six weeks ended June 29, 2013, selling, general and administrative expense includes \$0.8 million and \$1.6 million, respectively, of stock-based compensation expense. For the thirteen and twenty-six weeks ended June 30, 2012, selling, general and administrative expense includes \$1.0 million and \$2.0 million, respectively, of stock-based compensation expense. As of June 29, 2013, there was \$4.7 million of total unrecognized compensation expense related to nonvested restricted stock and option awards which is expected to be recognized over a weighted-average period of 1.7 years.

The total fair value of shares vested during the twenty-six weeks ended June 29, 2013 and June 30, 2012 was \$2.2 million and \$4.0 million, respectively.

5. Earnings (Loss) per Share

The Company uses the two-class method to compute basic and diluted earnings or loss per common share. In periods of net loss, no effect is given to the Company's participating securities as they do not contractually participate in losses of the Company. The following table sets forth the computation of basic and diluted loss per share (in thousands, except share and per share data):

	Thirteen weeks ended		Twenty-six weeks ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
NUMERATOR:				
Net loss before allocation of earnings to participating securities	\$ (6,218)	\$ (7,551)	\$ (6,205)	\$ (8,568)
Less: Earnings allocated to participating securities	-	-	-	-
Net loss after allocation of earnings to participating securities	<u>\$ (6,218)</u>	<u>\$ (7,551)</u>	<u>\$ (6,205)</u>	<u>\$ (8,568)</u>
DENOMINATOR:				
Weighted average number of common shares outstanding - basic	16,460,474	16,458,889	16,345,882	16,248,884
Dilutive effect of share-based awards:	-	-	-	-
Weighted average number of common shares outstanding - dilutive	<u>16,460,474</u>	<u>16,458,889</u>	<u>16,345,882</u>	<u>16,248,884</u>
Basic loss per common share attributable to Build-A-Bear Workshop, Inc. stockholders:	<u>\$ (0.38)</u>	<u>\$ (0.46)</u>	<u>\$ (0.38)</u>	<u>\$ (0.53)</u>
Diluted loss per common share attributable to Build-A-Bear Workshop, Inc. stockholders	<u>\$ (0.38)</u>	<u>\$ (0.46)</u>	<u>\$ (0.38)</u>	<u>\$ (0.53)</u>

In calculating diluted earnings per share for the thirteen and twenty-six week periods ended June 29, 2013, options to purchase 1,275,307 shares of common shares that were outstanding at the end of the period were not included in the computation of diluted earnings per share due to their anti-dilutive effect. For the thirteen and twenty-six week periods ended June 30, 2012, the number of options to purchase common shares that were excluded from the calculation was 1,184,189.

Due to the net loss for the thirteen and twenty-six week periods ended June 29, 2013 and June 30, 2012, the denominator for diluted loss per common share is the same as the denominator for basic loss per common share for those periods because the inclusion of stock options and unvested restricted shares would be anti-dilutive.

6. Income Taxes

In prior years, the Company recorded a valuation allowance on substantially all of its deferred tax assets. The effective tax rate was (1.7)% and (3.4)% for the thirteen and twenty-six weeks ended June 29, 2013, respectively compared to 9.1% and 9.2% for the thirteen and twenty-six weeks ended June 30, 2012, respectively.

7. Comprehensive Loss

The difference between comprehensive income or loss and net income or loss results from foreign currency translation adjustments on the balance sheets of subsidiaries whose functional currency is not the US Dollar. The accumulated other comprehensive loss balance at June 29, 2013 and December 29, 2012 is comprised entirely of foreign currency translation. For the thirteen and twenty-six weeks ended June 29, 2013 and June 30, 2012, there were no reclassifications out of accumulated other comprehensive loss.

8. Segment Information

The Company's operations are conducted through three operating segments consisting of retail, commercial and international franchising. The retail segment includes the operating activities of company-owned stores in the United States, Canada, the United Kingdom and Ireland and other retail delivery operations, including the Company's web store, pop-up stores and non-traditional store locations such as baseball stadiums. The commercial segment includes the Company's transactions with other businesses, mainly comprised of licensing the Company's intellectual properties for third party use and wholesale activities. The international franchising segment includes the licensing activities of the Company's franchise agreements with store locations in Europe, outside of the United Kingdom and Ireland; Asia; Australia; the Middle East; Africa; Mexico and South America. Each operating segment has discrete sources of revenue, different capital and cost structures. These operating segments represent the basis on which the Company's chief operating decision maker regularly evaluates the business in assessing performance, determining the allocation of resources and the pursuit of future growth opportunities. Accordingly, the Company has determined that each of its operating segments represents one reportable segment. The reportable segments follow the same accounting policies used for the Company's consolidated financial statements.

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

	<u>Retail</u>	<u>Commercial</u>	<u>International Franchising</u>	<u>Total</u>
Thirteen weeks ended June 29, 2013				
Net sales to external customers	\$ 80,395	\$ 750	\$ 757	\$ 81,902
Income (loss) before income taxes	(6,805)	390	302	(6,113)
Capital expenditures, net	5,164	-	45	5,209
Depreciation and amortization	4,715	-	46	4,761
Thirteen weeks ended June 30, 2012				
Net sales to external customers	\$ 78,989	\$ 705	\$ 716	\$ 80,410
Income (loss) before income taxes	(8,973)	314	353	(8,306)
Capital expenditures, net	4,492	-	33	4,525
Depreciation and amortization	5,228	-	45	5,273
Twenty-six weeks ended June 29, 2013				
Net sales to external customers	\$ 183,326	\$ 1,223	\$ 1,618	\$ 186,167
Income (loss) before income taxes	(6,878)	625	250	(6,003)
Capital expenditures, net	8,943	-	73	9,016
Depreciation and amortization	9,586	-	91	9,677
Twenty-six weeks ended June 30, 2012				
Net sales to external customers	\$ 174,189	\$ 1,081	\$ 1,513	\$ 176,783
Income (loss) before income taxes	(10,438)	235	764	(9,439)
Capital expenditures, net	8,257	-	47	8,304
Depreciation and amortization	10,547	-	89	10,636
Total Assets as of:				
June 29, 2013	\$ 159,111	\$ 6,460	\$ 3,016	\$ 168,587
June 30, 2012	\$ 193,660	\$ 9,609	\$ 2,678	\$ 205,947

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

	North			
	America ⁽¹⁾	Europe ⁽²⁾	Other ⁽³⁾	Total
Thirteen weeks ended June 29, 2013				
Net sales to external customers	\$ 66,701	\$ 14,752	\$ 449	\$ 81,902
Property and equipment, net	60,042	8,231	-	68,273
Thirteen weeks ended June 30, 2012				
Net sales to external customers	\$ 65,411	\$ 14,575	\$ 424	\$ 80,410
Property and equipment, net	62,672	10,846	-	73,518
Twenty-six weeks ended June 29, 2013				
Net sales to external customers	\$ 152,907	\$ 32,335	\$ 925	\$ 186,167
Property and equipment, net	60,042	8,231	-	68,273
Twenty-six weeks ended June 30, 2012				
Net sales to external customers	\$ 145,611	\$ 30,285	\$ 887	\$ 176,783
Property and equipment, net	62,672	10,846	-	73,518

For purposes of this table only:

(1) North America includes the United States, Canada, Puerto Rico and franchise business in Mexico

(2) Europe includes the United Kingdom, Ireland and franchise businesses in Europe

(3) Other includes franchise businesses outside of North America and Europe

9. Contingencies

In the normal course of business, the Company is subject to regular examination by various taxing authorities for years not closed by the statute of limitations, including an ongoing customs audit in the United Kingdom in which the Company is contesting audit findings. The Company accrues a liability for this type of contingency when it believes that it is both probable that a liability has been incurred and that it can reasonably estimate the amount of the loss. In 2012, the Company received notification from the customs authority that it intended to assess approximately £1.2 million, or approximately USD\$2 million, for unpaid duty, penalties and interest. The assessment was made in 2013. The Company has appealed this determination and continues to believe that the ultimate outcome of these matters will not have a material adverse impact on the results of operations, liquidity or financial position of the Company. However, if one or more of these examinations has an unfavorable resolution, it is possible that the results of operation, liquidity or financial position of the Company could be materially affected in any particular period. Since the date of the notification in the third quarter of fiscal 2012, the Company has been required to pay the disputed duty, pending resolution of the appeal. As of June 29, 2013, \$0.7 million had been paid in respect of the disputed duty and is included in receivables.

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

Cautionary Notice Regarding Forward-Looking Statements

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements, and we undertake no obligation to update these statements except as required by federal securities laws. These risks and uncertainties include, without limitation, those detailed under the captions "Risk Factors" and "Forward-Looking Statements" in our annual report on Form 10-K for the year ended December 29, 2012, as filed with the SEC on March 14, 2013, and the following:

- general global economic conditions may continue to deteriorate, which could lead to disproportionately reduced consumer demand for our products, which represent relatively discretionary spending;
- customer traffic may decrease in the shopping malls where we are located, on which we depend to attract guests to our stores;
- we may be unable to generate interest in and demand for our interactive retail experience, or to identify and respond to consumer preferences in a timely fashion;
- our marketing and on-line initiatives may not be effective in generating sufficient levels of brand awareness and guest traffic;
- we may be unable to generate comparable store sales growth;
- we may be unable to effectively operate or manage the overall portfolio of our company-owned stores;
- we may not be able to operate our company-owned stores in the United Kingdom and Ireland profitably;
- we may be unable to renew or replace our store leases, or enter into leases for new stores on favorable terms or in favorable locations, or may violate the terms of our current leases;
- the availability and costs of our products could be adversely affected by risks associated with international manufacturing and trade, including foreign currency fluctuation;
- our products could become subject to recalls or product liability claims that could adversely impact our financial performance and harm our reputation among consumers;
- we may lose key personnel, be unable to hire qualified additional personnel, or experience turnover of our management team;
- we are susceptible to disruption in our inventory flow due to our reliance on a few vendors;
- high petroleum products prices could adversely affect our profitability;
- we may be unable to effectively manage our international franchises or laws relating to those franchises may change;
- we may improperly obtain or be unable to adequately protect customer information in violation of privacy or security laws or customer expectations;
- we may suffer negative publicity or be sued due to violations of labor laws or unethical practices by manufacturers of our merchandise;
- we may suffer negative publicity or negative sales if the non-proprietary toy products we sell in our stores do not meet our quality or sales expectations;
- we may be unable to operate our company-owned distribution center efficiently or our third-party distribution center providers may perform poorly;
- our market share could be adversely affected by a significant, or increased, number of competitors;
- we may fail to renew, register or otherwise protect our trademarks or other intellectual property and may be sued by, third parties for infringement or misappropriation of their proprietary rights;
- poor global economic conditions could have a material adverse effect on our liquidity and capital resources;
- fluctuations in our quarterly results of operations could cause the price of our common stock to substantially decline;
- we may be unable to repurchase shares of our common stock at the times or in the amounts we currently anticipate or the results of the share repurchase program may not be as beneficial as we currently anticipate; and
- our corporate structure and Delaware law may prevent or frustrate attempts to replace or remove our current management by our stockholders.

Overview

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

Build-A-Bear Workshop is in a turnaround phase as we work to improve store productivity and profitability. We are taking actions to change our business dynamics with a reinvented store design, aggressive repositioning of our portfolio of stores, including closures and remodels that will reduce square footage, and a rebalancing of our marketing to include higher levels of brand advertising. We currently expect our optimal consolidated store count to be 285 to 310 company-owned stores. This includes 225 to 250 stores in North America and approximately 60 stores in the United Kingdom and Ireland. We believe the actions we are taking will result in improvements in productivity and profitability and, ultimately, stakeholder value. We also believe there are additional international growth opportunities, primarily through existing and new franchises.

As of June 29, 2013, we operated 257 traditional stores and six non-traditional stores in United States, Canada and Puerto Rico (collectively, North America), 60 traditional stores in the United Kingdom and Ireland (collectively, Europe) and had 90 franchised stores operating internationally under the Build-A-Bear Workshop brand. Non-traditional store locations include stores in a Major League Baseball® stadium, a zoo and an airport, as well as temporary pop-up locations. In order to capitalize on short-term opportunities in specific locations, we have selectively opened temporary, pop-up locations. In addition to our stores, we market our products and build our brand through our Web sites.

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

- Retail – Company-owned retail stores located in the United States, Canada, Puerto Rico, the United Kingdom, and Ireland, all non-traditional store locations and e-commerce websites or “web stores”;
- Commercial – Transactions with other business partners, mainly comprised of licensing our intellectual property, including entertainment properties, for third-party use and wholesale product sales; and
- International Franchising – International stores operated under franchise agreements.

Selected financial data attributable to each segment for the thirteen and twenty-six weeks ended June 29, 2013 and June 30, 2012 are set forth in the notes to our condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

We use comparable store sales as one of the performance measures for our business. Comparable store sales percentage changes are based on net retail sales, excluding our web store and temporary, seasonal and event-based locations. Stores are considered comparable beginning in their thirteenth full month of operation. Stores with relocations or remodels that result in a significant change in square footage are excluded from the comparable stores sales calculation until the thirteenth full month of operation after the change. The percentage change in comparable store sales for the periods presented below is as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
North America	8.6%	(1.8)%	9.7%	1.1%
Europe	1.7%	(1.3)%	5.9%	(6.0)%
Consolidated	7.3%	(1.7)%	9.0%	(0.1)%

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

- We believe our brand building marketing campaign and intensified communication with moms along with a good balance of proprietary and licensed product drove improved comparable store sales across the Company in both the second quarter and first half of 2013;
- We believe that our strategic closures, primarily in North American multi-store markets, have transferred approximately 20% of their sales to remaining stores in the market in both the second quarter and first half of 2013; and
- Additionally, the 30% increase in the issuance of gift cards on a consolidated basis during the 2012 fourth quarter, followed by a 20% increase in the first six months of 2013, contributed to increased retail sales in the first half of 2013 as the cards were redeemed.

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

- We are aggressively working to increase store traffic and the destination appeal of our stores by:
 - enhancing our experience with a new store design;

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

Strategy

Retail Stores

The table below sets forth the number of Build-A-Bear Workshop company-owned stores in North America and Europe for the periods presented:

	2013							
	Twenty-six Weeks				Fifty-two Weeks - Projected			
	December 29, 2012	Opened	Closed	June 29, 2013	December 29, 2012	Opened	Closed	December 28, 2013
North America								
Traditional	283	-	(26)	257	283	4	(35)	252
Non-traditional	8	-	(2)	6	8	-	(2)	6
	291	-	(28)	263	291	4	(37)	258
Europe	60	-	-	60	60	-	-	60
Total	351	-	(28)	323	351	4	(37)	318

	2012							
	Twenty-six Weeks				Fifty-two Weeks			
	December 31, 2011	Opened	Closed	June 30, 2012	December 31, 2011	Opened	Closed	December 29, 2012
North America								
Traditional	287	1	(3)	285	287	2	(6)	283
Non-traditional	11	1	(1)	11	11	1	(4)	8
	298	2	(4)	296	298	3	(10)	291
Europe	58	-	-	58	58	2	-	60
Total	356	2	(4)	354	356	5	(10)	351

Our long term store real estate goal is to bring our stores back to best in class productivity and profitability. Today we believe that the optimal number of Build-A-Bear Workshop stores in North America is between 225 to 250 and approximately 60 stores in the United Kingdom and Ireland for a total of 285 to 310 stores. The Company currently expects to reach this level with the closure of 60 to 70 stores in fiscal 2012 through 2014, primarily in North America, along with limited, opportunistic store openings. Locations to close and the timing of the closures are subject to ongoing negotiations and overall economic considerations as market repositioning and optimization plans are continually reevaluated.

Integral to the success of this strategy is the opening of our new store design which gives certain stores destination appeal and increases productivity in the market. The new design merges Build-A-Bear Workshop's iconic hands-on bear-making process with the power of technology to provide a new, highly interactive experience for our guests. We opened the first store with the new design in the third quarter of fiscal 2012. As of August 5, 2013, we have opened 16 of these stores. On average, sales at these locations have increased by approximately 20%. We plan to have approximately 30 locations in the new design operating by the end of 2013 with an additional 20 to 25 locations planned in 2014.

We have been aggressively renegotiating rents and executing short term extensions to line up lease dates within markets as part of an overall strategic plan to optimize our store locations and market positioning. As part of this strategy, we will continue to close underperforming stores in conjunction with natural lease expirations and kick out clauses, primarily in multi-store markets. In these markets, we have transferred, on average, approximately 20% of the sales from closing stores to other locations in the same market. As of August 5, 2013, we have closed 31 stores in fiscal 2013.

Non-Traditional Store Locations

In fiscal 2004, we began offering merchandise in seasonal, event-based locations such as Major League Baseball® ballparks. As of June 29, 2013, we had one location each in a ballpark, a zoo and an airport. In 2010, we opened our first pop-up stores, which generally have lease terms of six to eighteen months and are included in our non-traditional store count. These locations are intended to capitalize on short-term opportunities in specific locations. As of June 29, 2013, three pop-up stores were open.

International Franchise Locations:

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

	Twenty-Six Weeks Ended	
	June 29, 2013	June 30, 2012
Beginning of period	91	79
Opened	6	6
Closed	(7)	(1)
End of period	90	84

As of June 29, 2013, we had master franchise agreements, which typically grant franchise rights for a particular country or countries, covering an aggregate of 16 countries. In the ordinary course of business, we anticipate signing additional master franchise agreements in the future and terminating other such agreements. We expect our current franchisees to open eight to twelve stores in fiscal 2013 which are likely to be offset by select closures. We believe there is a market potential for current and future franchisees to operate approximately 300 franchised stores outside of the United States, Canada, Puerto Rico, the United Kingdom and Ireland.

Results of Operations

The following table sets forth, for the periods indicated, selected statement of operations data expressed as a percentage of total revenues, except where otherwise indicated:

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Revenues:				
Net retail sales	98.2%	98.2%	98.5%	98.5%
Commercial revenue	0.9	0.9	0.7	0.6
Franchise fees	0.9	0.9	0.9	0.9
Total revenues	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Costs and expenses:				
Cost of merchandise sold ⁽¹⁾	63.1	64.9	60.5	62.3
Selling, general and administrative	45.1	46.1	43.3	43.7
Interest expense (income), net	(0.1)	(0.1)	(0.1)	(0.1)
Total costs and expenses	<u>107.5</u>	<u>110.3</u>	<u>103.2</u>	<u>105.3</u>
Income (loss) before income taxes	(7.5)	(10.3)	(3.2)	(5.3)
Income tax (benefit) expense	0.1	(0.9)	0.1	(0.5)
Net income (loss)	<u>(7.6)%</u>	<u>(9.4)%</u>	<u>(3.3)%</u>	<u>(4.8)%</u>
Retail Gross Margin % ⁽²⁾	<u>36.8%</u>	<u>35.0%</u>	<u>39.4%</u>	<u>37.7%</u>

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

(2) Retail gross margin represents net retail sales less cost of retail merchandise sold, which excludes cost of wholesale merchandise sold. Retail gross margin was \$29.6 million and \$72.3 million for the thirteen and twenty-six weeks ended June 29, 2013, respectively, and \$27.7 million and \$65.7 million for the thirteen and twenty-six weeks ended June 30, 2012, respectively. Retail gross margin percentage represents retail gross margin divided by net retail sales.

Thirteen weeks ended June 29, 2013 compared to thirteen weeks ended June 30, 2012

Total revenues. Total revenues increased to \$81.9 million for the thirteen weeks ended June 29, 2013 compared to \$80.4 million for the thirteen weeks ended June 30, 2012, an increase of \$1.5 million, or 1.9%. Net retail sales were \$80.4 million for the thirteen weeks ended June 29, 2013 compared to \$79.0 million for the thirteen weeks ended June 30, 2012, an increase of \$1.4 million, or 1.8%. This increase was primarily attributable to a \$5.0 million increase in comparable store sales, a \$1.0 million increase in sales from pop-up and other non-store locations and a \$0.4 million increase in sales from new stores. This was partially offset by a \$4.5 million decline in sales from non-comparable store locations, primarily closures and relocations. Other changes in net retail sales, which included the impact of foreign currency, totaled \$0.5 million.

We believe the increase in comparable store sales was attributed primarily to the following factors:

- We believe our brand building marketing campaign and intensified communication with moms along with a good balance of proprietary and licensed product drove improved comparable store sales across the Company in the second quarter of 2013;
- We believe that our strategic closures, primarily in North American multi-store markets, have transferred approximately 20% of their sales to remaining stores in the market in the second quarter of 2013.

Commercial revenue was \$0.8 million and \$0.7 million for the thirteen weeks ended June 29, 2013 and June 30, 2012, respectively. Revenue from franchise fees was also \$0.8 million and \$0.7 million for the thirteen weeks ended June 29, 2013 and June 30, 2012, respectively.

Gross margin. Total gross margin increased to \$30.0 million for the thirteen weeks ended June 29, 2013, compared to \$28.0 million for the thirteen weeks ended June 30, 2012, an increase of \$2.0 million, or 7.1%. Retail gross margin was \$29.6 million for the thirteen weeks ended June 29, 2013 compared to \$27.7 million for the thirteen weeks ended June 30, 2012, an increase of \$1.9 million, or 6.9%. As a percentage of net retail sales, retail gross margin increased to 36.8% for the thirteen weeks ended June 29, 2013 from 35.0% for the thirteen weeks ended June 30, 2012. This 180 basis points as a percentage of net retail sales (bps) improvement was primarily driven by leverage in occupancy cost and reduced promotional activity.

Selling, general and administrative. Selling, general and administrative expenses decreased to \$36.9 million for the thirteen weeks ended June 29, 2013 compared to \$37.1 million for the thirteen weeks ended June 30, 2012, a decrease of \$0.2 million, or 0.5%. As a percentage of total revenues, selling, general and administrative expenses decreased to 45.1% for the thirteen weeks ended June 29, 2013 as compared to 46.1% for the thirteen weeks ended June 30, 2012, a decrease of 100 bps. The 2013 second quarter included \$0.5 million in one-time management transition costs and \$0.3 million in store closing costs. Excluding these costs, selling, general and administrative expenses as a percent of revenue decreased 190 bps, primarily due to decreases in store payroll costs and other operational cost savings resulting from store closures and our cost reduction efforts that were partially offset by higher incentive compensation.

Interest expense (income), net. Interest income, net of interest expense, was \$55,000 for the thirteen weeks ended June 29, 2013 as compared to \$63,000 for the thirteen weeks ended June 30, 2012.

Provision for income taxes. Income tax expense was \$0.1 million for the thirteen weeks ended June 29, 2013 as compared to the income tax benefit of \$0.8 million for the thirteen weeks ended June 30, 2012. The effective tax rate was (1.7)% for the thirteen weeks ended June 29, 2013 compared to 9.1% for the thirteen weeks ended June 30, 2012. The change in the effective tax rate was primarily attributable to the impact of recording valuation allowances on both foreign and domestic deferred tax assets in prior periods.

Twenty-six weeks ended June 29, 2013 compared to twenty-six weeks ended June 30, 2012

Total revenues. Total revenues increased to \$186.2 million for the twenty-six weeks ended June 29, 2013 from \$176.8 million for the twenty-six weeks ended June 30, 2012. Net retail sales were \$183.3 million for the twenty-six weeks ended June 29, 2013 compared to \$174.2 million for the twenty-six weeks ended June 30, 2012, an increase of \$9.1 million, or 5.2%. This increase was primarily attributable to a \$13.9 million increase in comparable store sales, a \$2.4 million increase in sales from pop-up and other non-store locations and a \$0.8 million increase in sales from new stores. These were partially offset by a \$7.5 million decline in sales from non-comparable store locations, primarily closures and relocations. Other changes in net retail sales, which included the impact of foreign currency, totaled \$0.5 million.

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

- We believe our brand building marketing campaign and intensified communication with moms along with a good balance of proprietary and licensed product drove improved comparable store sales across the Company in the first half of 2013;
- We believe that our strategic closures, primarily in North American multi-store markets, have transferred approximately 20% of their sales to remaining stores in the market in the first half of 2013; and
- Additionally, the 30% increase in the issuance of gift cards on a consolidated basis during the 2012 fourth quarter, followed by a 20% increase in the first six months of 2013, contributed to increased retail sales in the first half of 2013 as the cards were redeemed.

Commercial revenue was \$1.2 million for the twenty-six weeks ended June 29, 2013 compared to \$1.1 million for the twenty-six weeks ended June 30, 2012, an increase of \$0.1 million. Revenue from franchise fees increased to \$1.6 million for the twenty-six weeks ended June 29, 2013 from \$1.5 million for the twenty-six weeks ended June 30, 2012, an increase of \$0.1 million.

Gross margin. Total gross margin increased to \$72.9 million for the twenty-six weeks ended June 29, 2013 from \$66.1 million for the twenty-six weeks ended June 30, 2012, an increase of \$6.8 million, or 10.3%. Retail gross margin increased to \$72.3 million for the twenty-six weeks ended June 29, 2013 from \$65.7 million for the twenty-six weeks ended June 30, 2012, an increase of \$6.6 million, or 10.0%. As a percentage of net retail sales, retail gross margin increased to 39.4% for the twenty-six weeks ended June 29, 2013 from 37.7% for the twenty-six weeks ended June 30, 2012. This 170 bps improvement was primarily driven by leverage in occupancy cost and reduced promotional activity, partially offset by higher product costs in the 2013 first quarter.

Selling, general and administrative. Selling, general and administrative expenses were \$80.6 million for the twenty-six weeks ended June 29, 2013 as compared to \$77.2 million for the twenty-six weeks ended June 30, 2012, an increase of \$3.4 million, or 4.4%. As a percentage of total revenues, selling, general and administrative expenses decreased to 43.3% for the twenty-six weeks ended June 29, 2013 as compared to 43.7% for the twenty-six weeks ended June 30, 2012, a decrease of 40 bps. The dollar increase was primarily attributable to (i) \$2.3 million in one-time management transition costs, (ii) additional investment in marketing initiatives in the first quarter, (iii) \$0.9 million in store closing costs, and (iv) transactional foreign currency losses in the first quarter related to foreign payables denominated in US dollars. As a percent of revenue, these costs were offset by improved leverage on increased revenue. Excluding the management transition and store closing costs, selling, general and administrative expenses as a percent of revenue decreased 200 bps, primarily due to the overall decrease in expenses from store closures and our cost reduction efforts.

Interest expense (income), net. Interest income, net of interest expense, was \$0.1 million for the twenty-six weeks ended June 29, 2013 and June 30, 2012.

Provision for income taxes. The income tax expense was \$0.2 million for the twenty-six weeks ended June 29, 2013 as compared to the income tax benefit of \$0.9 million for the twenty-six weeks ended June 30, 2012. The effective tax rate was (3.4)% for the twenty-six weeks ended June 29, 2013 compared to 9.2% for the twenty-six weeks ended June 30, 2012. The change in the effective tax rate was primarily attributable to the impact of recording valuation allowances on both foreign and domestic deferred tax assets in prior periods.

Seasonality and Quarterly Results

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

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

As a toy retailer, our sales are highest in our fourth quarter, followed by the first quarter. The timing of holidays and school vacations can impact our quarterly results. We cannot ensure that this will continue to be the case. In addition, for accounting purposes, the quarters of each fiscal year consist of 13 weeks, although we will have a 14-week quarter approximately once every six years. The 2008 fiscal fourth quarter had 14 weeks.

Liquidity and Capital Resources

Our cash requirements are primarily for the relocation and remodeling of existing stores in our new design, opening of new stores, information systems and working capital. Over the past several years, we have met these requirements through capital generated from cash flow provided by operations. We have access to additional cash through our revolving line of credit that has been in place since 2000.

Operating Activities. Cash used in operating activities was \$7.5 million for the twenty-six weeks ended June 29, 2013 as compared with \$15.0 million for the twenty-six weeks ended June 30, 2012, a decrease of \$7.5 million. Generally, changes in cash from operating activities are driven by changes in net income or loss and changes in operating assets and liabilities. This decrease in cash used in operating activities over the year ago period was primarily due to increased store contribution and the timing of inventory receipts and payments.

Investing Activities. Cash used in investing activities was \$9.0 million for the twenty-six weeks ended June 29, 2013 as compared to \$6.1 million for the twenty-six weeks ended June 30, 2012, an increase of \$2.9 million. Cash used in investing activities during the twenty-six weeks ended June 29, 2013 primarily related to construction costs for new and remodeled stores, investments in central office information technology systems and the acquisition of trademarks and other intellectual property. Cash used in investing activities during the twenty-six weeks ended June 30, 2012 primarily related to construction costs for new and remodeled stores, investments in central office information technology systems and the acquisition of trademarks and other intellectual property, offset by the maturity of short-term investments.

Financing Activities. Cash provided by financing activities was \$0.1 million in the twenty-six weeks ended June 29, 2013 and \$-0- in the twenty-six weeks ended June 30, 2012. In 2013, the cash from financing activities related to the exercise of employee stock options. No borrowings were made under our line of credit in either the twenty-six weeks ended June 29, 2013 or June 30, 2012.

Capital Resources. As of June 29, 2013, we had a consolidated cash balance of \$28.1 million over half of which was domiciled outside of the United States. We also have a line of credit, which we can use for liquidity purposes, including to finance capital expenditures and working capital needs throughout the year. The credit agreement is with U.S. Bank, National Association and was amended effective April 30, 2013. The bank line provides availability of \$35 million. Borrowings under the credit agreement are secured by our assets and a pledge of 65% of our ownership interest in our foreign subsidiaries. The credit agreement expires on December 31, 2014 and contains various restrictions on indebtedness, liens, guarantees, redemptions, mergers, acquisitions or sale of assets, loans, transactions with affiliates and investments. It also prohibits us from declaring dividends without the bank's prior consent, unless such payment of dividends would not violate any terms of the credit agreement. We are also prohibited from repurchasing shares of our common stock unless such repurchase of shares would not violate any terms of the credit agreement; we may not use the proceeds of the line of credit to repurchase shares. Borrowings bear interest at LIBOR plus 1.8%. Financial covenants include maintaining a minimum tangible net worth, maintaining a minimum fixed charge coverage ratio (as defined in the credit agreement) and not exceeding a maximum funded debt to earnings before interest, depreciation and amortization ratio. As of June 29, 2013: (i) we were in compliance with these covenants; (ii) there were no borrowings under our line of credit; (iii) there was a standby letter of credit of approximately \$1.1 million outstanding under the credit agreement; and (iv) there was approximately \$33.9 million available for borrowing under the line of credit.

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

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

In fiscal 2013, we expect to spend a total of \$19 to \$22 million on capital expenditures. Capital spending through the twenty-six weeks ended June 29, 2013 totaled \$9.0 million, on track with our full year plans. Capital spending in fiscal 2013 is primarily for the remodeling of approximately 21 stores and opening of four new stores in our new design and the continued installation and upgrades of central office information technology systems.

We believe that cash generated from operations and available borrowings under our credit agreement will be sufficient to fund our working capital and other cash flow requirements for the near future. Our credit agreement expires on December 31, 2014.

On February 20, 2007, we announced that our board of directors had authorized a \$25 million share repurchase program of our outstanding common stock. On March 10, 2008, we announced an expansion of our share repurchase program to \$50 million. On February 28, 2013, we announced that our share repurchase program had been extended to March 31, 2014. We currently intend to purchase up to an aggregate of \$50 million of our common stock in the open market (including through 10b5-1 plans), through privately negotiated transactions or through an accelerated repurchase transaction. The primary source of funding for the program is expected to be cash on hand. The timing and amount of share repurchases, if any, will depend on price, market conditions, applicable regulatory requirements, and other factors. The program does not require us to repurchase any specific number of shares and may be modified, suspended or terminated at any time without prior notice. Shares repurchased under the program have been, and will continue to be, subsequently retired. As of August 5, 2013, approximately 5.9 million shares at an average price of \$7.24 per share have been repurchased under this program for an aggregate amount of \$42.6 million, leaving \$7.4 million of availability under the program.

Off-Balance Sheet Arrangements

None

Critical Accounting Estimates

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

We believe application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates, including those related to inventory, long-lived assets, goodwill, revenue recognition and income taxes, are reevaluated on an ongoing basis, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

Our critical accounting policies and estimates are discussed in and should be read in conjunction with our annual report on Form 10-K, as filed with the Securities and Exchange Commission (SEC) on March 14, 2013, which includes audited consolidated financial statements for our 2012, 2011 and 2010 fiscal years. There have been no material changes to the critical accounting estimates disclosed in the 2012 Form 10-K.

Recent Accounting Pronouncements

There are no new accounting pronouncements for which adoption is expected to have a material effect on the Company's financial statements in future accounting periods.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our market risks relate primarily to changes in interest rates, and we bear this risk in two specific ways. First, our revolving credit facility carries a variable interest rate that is tied to market indices and, therefore, our results of operations and our cash flows can be impacted by changes in interest rates. Outstanding balances under our credit facility bear interest at LIBOR plus 1.8%. We had no borrowings outstanding during the first half of fiscal 2013. Accordingly, a 100 basis point change in interest rates would result in no material change to our annual interest expense. The second component of interest rate risk involves the investment of excess cash in short term, investment grade interest-bearing securities. These investments are considered to be cash equivalents or short-term investments, based on their original maturity and are classified accordingly on our balance sheet. If there are changes in interest rates, those changes would affect the investment income we earn on these investments and, therefore, impact our cash flows and results of operations.

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

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

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

Item 4. Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and President Bear and Chief Operations and Financial Bear, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management, including our certifying officers, as appropriate to allow timely decisions regarding required disclosure. Based on the foregoing evaluation, our management, including the Chief Executive Officer and President Bear and Chief Operations and Financial Bear, concluded that our disclosure controls and procedures were effective as of June 29, 2013, the end of the period covered by this Quarterly Report.

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

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

PART II – OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to our Risk Factors as disclosed in our Annual Report on Form 10-K for the year ended December 29, 2012 as filed with the SEC on March 14, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) the May Yet Be Purchased Under the Plans or Programs
Mar. 31, 2013				
–				
Apr. 27, 2013	706	\$ 5.20		- \$ 7,364,562
Apr. 28, 2013				
–				
May 25, 2013	194	\$ 6.62		- \$ 7,364,562
May 26, 2013				
–				
Jun. 29, 2013		-		- \$ 7,364,562
Total	900	\$ 5.51		

- (1) Includes shares of our common stock delivered to us in satisfaction of the tax withholding obligation of holders of restricted shares which vested during the applicable period. Our equity incentive plans provide that the value of shares delivered to us to pay the withheld to cover tax obligations is calculated at the closing trading price of our common stock on the date the relevant transaction occurs.
- (2) On February 28, 2013, we announced the further extension of our \$50 million share repurchase program of our outstanding common stock until March 31, 2014. The program was authorized by our board of directors. Purchases may be made in the open market or in privately negotiated transactions, with the level and timing of activity depending on market conditions, applicable regulatory requirements, and other factors. Purchase activity may be increased, decreased or discontinued at any time without notice. Shares purchased under the program are subsequently retired.

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

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated April 3, 2000 between Build-A-Bear Workshop, L.L.C. and the Registrant (incorporated by reference from Exhibit 2.1 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
3.1	Third Amended and Restated Certificate of Incorporation (incorporated by reference from Exhibit 3.1 of our Current Report on Form 8-K, filed on November 11, 2004)
3.2	Amended and Restated Bylaws (incorporated by reference from Exhibit 3.4 to our Registration Statement on Form S-1, filed on August 12, 2004, Registration No. 333-118142)
4.1	Specimen Stock Certificate (incorporated by reference from Exhibit 4.1 to Amendment No. 3 to our Registration Statement on Form S-1, filed on October 1, 2004, Registration No. 333-118142)
10.1	Employment, Confidentiality and Noncompete Agreement dated as of June 3, 2013 between Sharon Price John and the Registrant.
10.2	Thirteenth Amendment to Loan Documents between Build-A-Bear Workshop, Inc., Build-A-Bear Workshop Franchise Holdings, Inc., Build-A-Bear Entertainment, LLC, Build-A-Bear Retail Management, Inc., as Borrowers, and U.S. Bank National Association, as Lender, entered into effective as of April 30, 2013 (incorporated by reference from Exhibit 10.1 to our Current Report on Form 8-K, filed on May 2, 2013)
31.1	Rule 13a-14(a)/15d-14(a) certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the Chief Executive Officer and President Bear)
31.2	Rule 13a-14(a)/15d-14(a) certification (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, executed by the Chief Operations and Financial Bear)
32.1	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the Chief Executive Officer and President Bear)
32.2	Section 1350 Certification (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by the Chief Operations and Financial Bear)
101.INS	XBRL Instance
101.SCH	XBRL Extension Schema
101.CAL	XBRL Extension Calculation
101.DEF	XBRL Extension Definition
101.LAB	XBRL Extension Label
101.PRE	XBRL Extension Presentation

SIGNATURES

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

Date: August 8, 2013

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

By: /s/ Sharon John
Sharon John
Chief Executive Officer and Chief President Bear
(on behalf of the registrant and as principal executive officer)

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

EMPLOYMENT, CONFIDENTIALITY AND NONCOMPETE AGREEMENT

This Employment, Confidentiality and Noncompete Agreement ("Agreement") is entered into effective as of the 3rd day of June, 2013, by and between Build-A-Bear Workshop, Inc., a Delaware corporation ("Company"), and Sharon Price John ("Employee").

WHEREAS, Company desires to employ and Employee desires to be employed as the Chief Executive Officer and Chief President 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 directly and 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 Executive Officer and Chief President Bear throughout the Employment Period, and agrees to do so on a full-time basis. Employee shall carry out such duties as are assigned to her by Company's Board of Directors. To the extent that the Company, as defined below, includes multiple entities, Employee shall at all times serve as Chief Executive Officer and Chief President Bear of Build-A-Bear Workshop and the highest ranking officer all of its Subsidiaries (as defined below).

(b) Employee agrees that throughout Employee's employment with Company, Employee will (i) faithfully render such services as may be delegated reasonably to Employee by the Company's Board of Directors, (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 which are applicable to its most senior executives, including but not limited to working hours, sales and promotion policies, and specific Company rules.

(c) "Company" means Build-A-Bear Workshop, Inc. or one of its Subsidiaries. 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 renew for successive one-year periods (each a "Renewal Period"; collectively, the Initial Term and each Renewal Period, the "Employment Period"), unless either party notifies the other party of its decision not to renew the Agreement at least 30 days prior to the third anniversary date or the expiration of any Renewal Period, or unless the Agreement is sooner terminated as provided in Section 4 hereof. For the avoidance of doubt, if either party provides notice of non-renewal of the Agreement at least 30 days prior to the end of the Initial Term or the end of any Renewal Period, then the Agreement shall expire.

3. Compensation.

(a) Base Salary. Throughout the Employment Period, Company shall pay Employee as compensation for her services an annual base salary of not less than Six Hundred Twenty Five Thousand Dollars (\$625,000), payable in accordance with Company's usual practices. Employee's annual base salary rate shall be reviewed by the Compensation Committee of the Board of Directors (the "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. Employee's annual base salary rate shall not be subject to decrease at any time during the Employment Period.

(b) Bonus. Should Company meet or exceed the sales, profits and other objectives established by Compensation Committee for any fiscal year, Employee shall be eligible to receive a bonus for such fiscal year in the amount as determined by the Compensation Committee; provided however the potential bonus opportunity for Employee in any given fiscal year will be set by the Compensation Committee such that, if the Company exceeds its objectives, the Company will pay Employee not less than One Hundred percent (100%) 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 in the calendar year following such fiscal year but no later than April 30th of such following year. 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 and shall be paid at the time and in the form such bonus would have been paid had Employee's employment continued. No bonus shall be payable hereunder for any other termination of employment by Executive prior to the last day of a fiscal year. Notwithstanding anything herein to the contrary, Employee shall be entitled to receive a bonus for the 2013 fiscal year in such amount as determined by the Compensation Committee but not less than Fifty percent (50%) of Employee's annual base pay for such fiscal year, pro-rated based on the number of full calendar weeks during the fiscal year for which Employee is employed with the Company.

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 in the calendar year following the applicable fiscal year but no later than April 30th of such following year, regardless of Employee's employment status at the time payment is due. If timely payment is not made, the Company shall indemnify the Employee against any additional tax liability that the Employee may incur as a result of the payment being made after the April 30th.

(c) Equity Awards. Employee may in the future be granted, a certain number of restricted shares and/or stock options to purchase shares of Company's common stock (the "Common Stock") and/or other awards, pursuant to the terms set forth more particularly in the stock option and/or restricted stock and/or other award agreements ("Stock Agreement") used in connection with the Build-A-Bear Workshop, Inc. 2004 Stock Incentive Plan (or any successor plan) (the "Plan"). The Plan and applicable Stock Agreement(s) shall govern any grants of restricted shares and/or stock options to purchase shares of Company's Common Stock and/or such other awards.

(d) Discounts. Employee and her immediate family will be entitled to a minimum 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. 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 Compensation Committee of the Company's Board of Director, 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 compensation under this Agreement shall be subject to customary withholding taxes and other employment taxes as required with respect thereto. Throughout the Employment Period, 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. Employee may, in her sole discretion, decline any perquisite, Welfare Benefit, proposed annual salary increase, or bonus payment.

(g) Signing Bonus. Employee shall receive a lump sum cash bonus in the amount of One Hundred Twelve Thousand Five Hundred Dollars (\$112,500) paid on the Company’s first regular pay date following execution of this Agreement, subject to withholding and other employment taxes as required.

4. Termination Provisions.

4.1 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), following such time as Employee has been unable to perform the essential functions of her position, with or without reasonable accommodation, for six (6) 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, provided however that continued entitlement to disability benefits coverage shall be not required where Employee fails to qualify for benefits coverage continuation due to an act or omission by Employee.

(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) any act which results in a conviction for a felony involving moral turpitude, fraud or misrepresentation; (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 and 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 as set forth in (i)-(v)(to the extent curable) within thirty (30) days after the Board of Directors provides Employee with reasonably-detailed written notice of said conduct or breach accompanied by a clear written statement of the Company’s intent to terminate the Employee’s employment for Cause in the absence of a cure. Cause shall not exist unless and until the Employee (and her counsel if she wishes) has been afforded an opportunity prior to the actual date of termination to discuss the matter with the Board of Directors at a duly-called Board meeting at which the matter is timely placed on the agenda and the Board subsequently votes to terminate the relationship for Cause.

(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) Company's issuance of a notice of non-renewal of this Agreement under Section 2, (iii) a material diminution in Employee's base compensation, (iv) a material diminution in Employee's authority, duties or responsibilities, (v) a requirement that Employee report to a corporate officer or employee instead of reporting directly to the Board of Directors, or (vi) a change in the geographic location at which Employee must perform services hereunder of more than twenty-five (25) miles; provided, that, Employee provides the Board of Directors with written notice of Good Reason within thirty (30) days of the date on which Employee becomes aware of the condition alleged to give rise to Good Reason, Company does not cure such condition within thirty (30) days after such notice (to the extent curable), and Employee terminates her employment within ninety (90) days following the onset of one or more conditions giving rise to Good Reason.

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 other than for Cause pursuant to Section 4.1(c) or (ii) the Employee terminates her employment for Good Reason pursuant to Section 4.1(d), subject to the execution and non-revocation of a release and waiver of all claims described below, the Company shall continue her base salary in accordance with its regular payroll practices for a period of (A) twelve (12) months, commencing on the date that is thirty (30) days after the termination in the case of a termination of employment either prior to a Change in Control or following a period of twelve (12) months after a Change in Control or (B) twenty-four (24) months, commencing on the date that is thirty (30) days after the termination in the case of a termination of employment during the twelve (12) month period immediately following a Change in Control, in each case, such payments to be reduced by the amount of any compensation from a subsequent employer during such period. Notwithstanding anything herein to the contrary, receipt of any payment in connection with a termination of employment shall be conditioned on Employee signing a release and waiver of all claims against the Company and its affiliates within thirty (30) days after her termination of employment, in such form and manner as the Company shall reasonably prescribe, which release shall become effective and irrevocable within thirty (30) days after Employee's termination of employment. Employee shall accept these payments in full discharge of all obligations of any kind which Company has to her except obligations, if any (i) for post-employment benefits expressly provided under this Agreement and/or at law, (ii) to repurchase any capital stock of Company owned by Employee (as may or may not be set forth in the applicable stock agreement); or (iii) for indemnification under separate agreement by virtue of Employee's status as a director/officer of the Company. Employee shall also be eligible to receive a bonus with respect to the year of termination as provided in Section 3(b).

Notwithstanding anything herein to the contrary, in the event that Employee is determined to be a specified employee within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), for purposes of any payment on termination of employment hereunder, payment(s) shall be made or begin, as applicable, on the first payroll date which is more than six months following the date of separation from service, to the extent required to avoid any adverse tax consequences under Section 409A of the Code. Any payments that would have been made during such 6-month period shall be made in a lump sum on the first payroll date which is more than six months following the date Employee separates from service with Company. Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may Employee, directly or indirectly, designate the calendar year of any payment to be made under this Agreement. This Agreement shall be interpreted and administered in a manner consistent with Section 409A of the Code.

For purposes of this Agreement, "Change in Control" shall mean: (i) the purchase or other acquisition (other than from the Company) by any person, entity or group of persons, within the meaning of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended ("Act") (excluding, for this purpose, the Company or its subsidiaries or any employee benefit plan of the Company or its subsidiaries), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of 20% or more of either the then-outstanding shares of common stock of the Company or the combined voting power of the Company's then-outstanding voting securities entitled to vote generally in the election of directors; or (ii) individuals who, as of the date hereof, constitute the Company's Board of Directors (and, as of the date hereof, the "Incumbent Board") cease for any reason to constitute at least a majority of the Company's Board of Directors, provided that any person who becomes a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Act) shall be, for purposes of this Section, considered as though such person were a member of the Incumbent Board; (iii) a reorganization, merger or consolidation involving the Company, in each case with respect to which persons who were the stockholders of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than 50% of, respectively, the common stock and the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated corporation's then-outstanding voting securities; or (iv) a liquidation or dissolution of the Company, or the sale of all or substantially all of the assets of the Company.

(c) Termination due to Employee Non-Renewal of Term or Termination by Employee without Good Reason . If the Agreement expires either at the end of the Initial Term or at the end of any Renewal Period, due to the issuance of notice of non-renewal by Employee under Section 2, then no severance under Section 4(b) shall be paid to the Employee and her employment shall terminate upon the anniversary date. If Employee terminates her employment without Good Reason, then no severance under 4.2(b) shall be paid to Employee and her employment shall terminate on the effective date of such termination. For the avoidance of doubt, if the Company ends the relationship either at the end of the Initial Term or at the end of any Renewal Period other than for Cause, the Company shall remit to Employee the severance specified in Section 4(b) provided Company has received the release and waiver referred to in Section 4(b).

(d) Welfare Benefits. Upon termination or expiration of this Agreement for any reason, Employee shall be provided with such Welfare Benefits continuation notices, rights and obligations as may be required under federal or state law (including COBRA). In the event that Employee becomes entitled to any severance under paragraph 4.2(b) above, during the period that Welfare Benefits are continued under COBRA, the Company shall continue to pay the Company's portion of the medical plan premium for the benefit of 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;
- (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 4.1(b), (c), or (d), or due to expiration of the Agreement due to non-renewal by either party, Employee will not, directly or indirectly (whether as owner, partner, consultant, employee or otherwise):

(a) for one (1) year, 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 one (1) year, 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: (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 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.

(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 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 she 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. §§ 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 she may have arising under 17 U.S.C. §§ 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. §§ 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 other than to the extent noted above.

10. Nondisparagement. Employee agrees that she will not in any way disparage Company or its affiliated entities, officers, or directors; and the officers and directors shall not in any way disparage Employee. Further, Employee agrees that she will neither make nor solicit any comments, statements, or the like to the media or to third parties that may be considered to be derogatory or detrimental to the good name or business reputation of Company or any of its affiliated entities, officers or directors; and the officers and directors will neither make nor solicit any comments, statements, or the like to the media or to third parties that may be considered to be derogatory or detrimental to the good name or business reputation of Employee.

11. 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.

12. 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 seek temporary, preliminary and permanent injunctive relief restraining such breach or threatened breach, without the necessity of posting any bond. 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.

13. 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.

14. 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. Employee further represents and agrees that she will not, during her employment with Company, improperly use or disclose any proprietary information or trade secrets of former employers and will not bring on to the premises of the Company any unpublished documents or any property belonging to her former employers unless consented to in writing by such employers.

15. 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.

16. Assignments. This Agreement shall be freely assignable by Company to and shall inure to the benefit of, and be binding upon, Company, its affiliates, 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.

17. 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.

18. Notices. Except as otherwise provided for herein, any notices to be given by either party to the other shall be affected by personal delivery in writing or by mail, registered or certified, postage prepaid, with return receipt requested. Mailed notices shall be addressed as follows:

(a) If to Company:

Eric Fencil
Chief Bearrister—General Counsel
1954 Innerbelt Business Center
St. Louis, MO 63114

(b) If to Employee:

Sharon Price John

19. 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 employment 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.

20. Reduction. Any provision of this Agreement to the contrary notwithstanding, if any payments or benefits which Employee has the right to receive ("Payments"), whether provided hereunder or under a different arrangement, are subject to the excise tax imposed by Section 4999 of the Code ("Excise Tax"), then the Payments shall be reduced (but not below zero) to the greatest amount which may be paid without Employee becoming subject to the Excise Tax. The determinations as to the Payments to be reduced and the amount of reduction shall be made by the Company in good faith, and such determinations shall be conclusive and binding on Employee. If a reduced payment is made and through error or otherwise that payment, when aggregated with other Payments used in determining if a "parachute payment" exists, would trigger an Excise Tax, Employee shall immediately repay such excess to the Company upon notification that an overpayment has been made. In the event that Employee receives reduced payments and benefits as a result of the application of this paragraph, reduction shall be made from payments and benefits which are determined not to be nonqualified deferred compensation for purposes of Section 409A of the Code first, and then shall be made (to the extent necessary) out of payments and benefits which are subject to Section 409A of the Code and which are due at the latest future date, to the extent such reduction would not trigger adverse tax consequences under Section 409A of the Code.

21. 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.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of May 22, 2013.

THIS AGREEMENT CONTAINS A BINDING ARBITRATION PROVISION WHICH MAY BE ENFORCED BY COMPANY.

/s/ Sharon Price John
Sharon Price John

BUILD-A-BEAR WORKSHOP, INC.

By: /s/ Eric R. Fencil

Name: Eric R. Fencil

Title: Chief Bearrister—General Counsel

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

I, Sharon John, certify that:

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

/s/ Sharon John

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

Date: August 8, 2013

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

I, Tina Klocke, certify that:

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

/s/ Tina Klocke

Tina Klocke

Chief Operations and Financial Bear, Treasurer and Secretary
Build-A-Bear Workshop, Inc.
(Principal Financial Officer)

Date: August 8, 2013

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

In connection with the quarterly report of Build-A-Bear Workshop, Inc. (the "Company") on Form 10-Q for the period ended June 29, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sharon John, Chief Executive Officer and President Bear of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Sharon John

Sharon John

*Chief Executive Officer and Chief President Bear
Build-A-Bear Workshop, Inc.*

Date: August 8, 2013

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

In connection with the quarterly report of Build-A-Bear Workshop, Inc. (the "Company") on Form 10-Q for the period ended June 29, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tina Klocke, Chief Operations and Financial Bear, Treasurer and Secretary of the Company, certify, to the best of my knowledge, pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Tina Klocke

Tina Klocke
*Chief Operations and Financial Bear, Treasurer and
Secretary
Build-A-Bear Workshop, Inc.*

Date: August 8, 2013

