BUILD A BEAR WORKSHOP INC
Form 424B4
October 29, 2004

Table of Contents

Table of Contents

TABLE OF CONTENTS

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

Dealer Prospectus Delivery Obligation

Until November 22, 2004 (the 25th day after commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

Table of Contents

PROSPECTUS SUMMARY

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

Our Business

Overview

We are the leading, and only national, company providing a make your own stuffed animal interactive retail-entertainment experience. As of October 12, 2004, we operated 165 stores in 39 states and Canada and had eight franchised stores internationally, all under the Build-A-Bear Workshop® brand. Our concept is based on our customers, or guests, creating, personalizing and customizing their stuffed animals, and capitalizes on what we believe is the relatively untapped demand for experience-based shopping as well as the widespread appeal of stuffed animals.

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

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

We have grown our store base from 14 stores at the end of fiscal 1999 to 165 as of October 12, 2004 and increased our revenues from $106.6 million in fiscal 2001 to $213.4 million in fiscal 2003, for a compound annual revenue growth rate of 41.6%, and increased net income from $1.9 million in fiscal 2001 to $8.0 million in fiscal 2003, for a compound annual net income growth rate of 104.6%.

Our competitive strengths include the following:

- We offer an exciting interactive shopping experience;
- We have a broad and loyal guest base;
- We have strong merchandising expertise;
- We provide a high level of guest service through consistent execution;
- We have an attractive store economic model; and
- We have a highly experienced and disciplined management team.

Our growth strategies include the following:

- Continuing to expand our store base in the United States and Canada;
- Continuing to expand our retail concept outside the United States and Canada;
- Continuing to expand non-mall locations;

Seeking to expand into new lines of experiential retail; and

Pursuing other non-retail opportunities.

1

Table of Contents

Risks Related to Our Business

Our business is subject to numerous risks that are described more fully in the section entitled Risk Factors immediately following this prospectus summary. For example, the plush toys and dolls and entertainment industries are highly competitive and we may not be able to attract enough interest and demand from guests for our interactive retail experience. In addition, our financial condition and results of operations will largely depend on our ability to successfully execute our growth strategies.

Recent Developments

For the 13 weeks ended October 2, 2004 we had total revenues of $66.5 million, compared to $48.0 million in total revenues for the 13-week period ended September 27, 2003, a 38.7% increase. This increase was primarily a result of an 18.8% increase in comparable store sales for the 13 weeks and sales from 22 new stores opened since September 27, 2003.

For the 39 weeks ended October 2, 2004, we had total revenues of $202.2 million, compared to $140.5 million in total revenues for the 39-week period ended September 27, 2003, a 43.9% increase. We had a 15.6% increase in comparable store sales during this period.

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

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

Table of Contents

The Offering

Common stock offered by us	1,500,000 shares
Common stock offered by the selling stockholders	5,982,000 shares
Over-allotment option granted by certain selling stockholders	1,122,300 shares
Common stock to be outstanding after the offering	19,551,642 shares
Use of proceeds	We estimate that the net proceeds to us from this offering will be approximately $25.7 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We plan to use the net proceeds from this offering: to fund the opening of new stores and the remodeling of existing stores; and for working capital and general corporate purposes. Pending the application of the net proceeds from this offering, we intend to invest the proceeds in short-term, interest-bearing, investment-grade securities. We will not receive any of the proceeds from the sale of shares by the selling stockholders. See Use of Proceeds.
Dividend policy	We paid a special $10.0 million cash dividend to our stockholders in August 2004. We do not expect to pay cash dividends in the foreseeable future. See Dividend Policy.
Risk factors	You should carefully consider all of the information in this prospectus and, in particular, you should evaluate the specific factors set forth under Risk Factors in deciding whether to invest in our common stock.
New York Stock Exchange symbol	BBW

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

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

1,047,283 shares of our common stock issuable upon exercise of options outstanding as of July 3, 2004 under our 2000 stock option plan and our 2002 stock incentive plan, at a weighted average exercise price of $6.52 per share;

up to 2,073,820 additional shares of our common stock reserved for issuance under our 2004 stock incentive plan; and

1,000,000 shares of our common stock issuable pursuant to our 2004 associate stock purchase plan.

Table of Contents

Summary Consolidated Financial and Operating Data

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

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

	Fiscal Year Ended			26 Weeks Ended	
	December 29, 2001	**December 28, 2002**	**January 3, 2004**	**June 28, 2003**	**July 3, 2004**
	(Dollars in thousands, except per gross square foot data)				
Statement of operations data:					
Total revenues	$ 106,622	$ 169,138	$ 213,672	$ 92,583	$ 135,727
Costs and expenses:					
Cost of merchandise sold	56,708	90,848	116,515	51,929	70,146
Selling, general and administrative	41,100	65,628	81,091	36,084	48,632
Store preopening	3,124	3,091	3,045	1,491	580
Other expense (income), net(1)	2,620	(88)	(58)	(55)	(98)
Total costs and expenses	103,552	159,479	200,593	89,449	119,260
Income before income taxes	3,192	9,659	13,079	3,134	16,467
Net income	1,905	5,868	7,978	1,849	10,209
Net income allocated to common stockholders	19	77	124	14	261
Earnings per common share:					
Basic(2)	$ 0.09	$ 0.35	$ 0.57	$ 0.07	$ 0.92
Diluted	$ 0.07	$ 0.32	$ 0.45	$ 0.07	$ 0.57
Shares used in computing common per share amounts:					
Basic(2)	217,519	217,519	217,519	217,519	284,731
Diluted	9,101,143	12,055,458	17,546,348	9,367,692	17,938,328

Table of Contents

	Fiscal Year Ended			26 Weeks Ended	
	December 29, 2001	December 28, 2002	January 3, 2004	June 28, 2003	July 3, 2004
	(Dollars in thousands, except per gross square foot data)				
Other financial data:					
Gross margin ($)(3)	$ 49,913	$ 78,275	$ 96,912	$ 40,559	$ 65,273
Gross margin (%)(3)	46.8%	46.3%	45.4%	43.9%	48.2%
Capital expenditures(4)	$ 21,624	$ 18,718	$ 18,362	$ 10,338	$ 4,438
Depreciation and amortization	4,588	7,775	11,065	4,939	6,030
Cash flow data:					
Cash flows provided by (used in) operating activities	$ 14,482	$ 18,664	$ 25,215	$ (1,004)	$ 10,809
Cash flows used in investing activities	(23,280)	(20,232)	(20,480)	(11,177)	(5,095)
Cash flows provided by (used in) financing activities	19,256	(121)			
Store data(5):					
Number of stores at end of period	71	108	150	123	157
Average net retail sales per store(6)(7)	$ 2,003	$ 1,904	$ 1,605	$ 791	$ 879
Net retail sales per gross square foot(7)(8)	634	582	502	247	287
Comparable store sales change (%)(9)	(6.7)%	(9.7)%	(15.9)%	(16.5)%	13.8%

				July 3, 2004	
	December 29, 2001	December 28, 2002	January 3, 2004	Actual	Pro Forma as Adjusted(10)
	(Dollars in thousands)				
Balance sheet data:					
Cash and cash equivalents	$ 17,555	$ 15,866	$ 20,601	$ 26,315	$ 42,015
Working capital	8,983	4,813	7,724	18,656	34,356
Total assets	72,854	93,693	111,964	124,833	140,533
Long-term debt					
Redeemable convertible preferred stock	33,964	35,920	37,890	38,875	
Total stockholders equity	11,628	15,526	21,540	30,728	85,303

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

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

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

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

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

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

Table of Contents

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

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

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

(10) On a pro forma as adjusted basis to give effect to the special $10.0 million cash dividend paid in August 2004, the automatic conversion of all of our outstanding shares of preferred stock as of this date upon completion of this offering, and the issuance and sale of 1,500,000 shares of common stock at an initial public offering price of $20.00 per share, less underwriting discounts and commissions and estimated offering expenses.

Table of Contents

RISK FACTORS

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

Risks Related to Our Business

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

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

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

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

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

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

- create greater awareness of our brand, interactive shopping experience and products;
- identify the most effective and efficient level of spending in each market;
- determine the appropriate creative message and media mix for marketing expenditures;

effectively manage marketing costs (including creative and media) in order to maintain acceptable operating margins and return on marketing investment;

- select the right markets in which to market; and

- convert consumer awareness into actual store visits and product purchases.

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

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

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

- negotiate acceptable lease terms, including desired tenant improvement allowances;

- finance the preopening costs, capital expenditures and working capital requirements of the stores;

- manage inventory to meet the needs of new and existing stores on a timely basis;

- hire, train and retain qualified store personnel;

- develop cooperative relationships with our landlords; and

- successfully integrate new stores into our existing operations.

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

If we are not able to franchise new stores outside of the United States and Canada, if we are unable to effectively manage our international franchises or if the laws relating to our international franchises change, our growth and profitability could be adversely affected and we could be exposed to additional liability.

In 2003, we began to expand the Build-A-Bear Workshop brand outside of the United States, opening our own stores in Canada and our first franchised location in the United Kingdom. We intend to continue expanding outside of the United States and Canada through franchising in several countries over the next several years. As of October 12, 2004, there were eight Build-A-Bear Workshop franchised stores located in the United Kingdom, Japan, South Korea and Denmark. We have limited experience in franchising, and we cannot assure you that our franchisees will be successful in operating their stores or that we will be successful in maintaining and implementing our international franchising strategy. These markets frequently have different demographic characteristics, competitive conditions, consumer tastes and discretionary spending patterns than our existing United States and Canadian markets, which may cause these stores to be less successful than those in our existing markets. Additionally, our franchisees may experience merchandising and distribution challenges that are different from those we currently encounter in our existing markets. The operations and results of our franchisees could be negatively impacted by the financial or political factors in the countries in which they operate. These challenges, as well as others, could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

We may not be able to operate successfully if we lose key personnel, are unable to hire qualified additional personnel, or experience turnover of our management team.

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

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

We do not own or operate any manufacturing facilities. We purchased approximately 80% of our merchandise in fiscal 2001, approximately 74% in fiscal 2002, and approximately 76% in fiscal 2003, from two vendors. These vendors in turn contract for our orders with multiple factories for the production of merchandise. Our relationships with our vendors generally are on a purchase order basis and do not provide a contractual obligation to provide adequate supply, quality or acceptable pricing on a long-term basis. Our vendors could discontinue sourcing merchandise for us at any time. If one or both of our significant vendors were to discontinue their relationship with us, or if the factories with which they

Table of Contents

contract were to suffer a disruption in their production, we may be unable to replace the vendors in a timely manner, which could result in short-term disruption to our inventory flow as we transition our orders to new vendors or factories which could, in turn, disrupt our store operations and have an adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

Table of Contents

- actions of competitors or mall anchors and co-tenants;
- seasonal shopping patterns, including whether the Easter holiday occurs in the first or second quarter and other vacation schedules;
- the timing and frequency of national media appearances and other public relations events; and
- weather conditions.

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

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

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

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

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

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

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

Table of Contents

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

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

We have entered into various transactions with certain related parties which may not reflect arms-length terms.

We have entered into various transactions with parties that have relationships with us, including, but not limited to, employment with us, familial relationships with our employees or beneficial ownership of greater than 5% of certain classes of our outstanding capital stock. As described under Certain Relationships and Related Party Transactions, these transactions relate to, among other things, the purchase of furniture and fixtures for new stores, leases, real estate management, construction and related services, and design services. Our board of directors did not seek or obtain competitive bids prior to entering into these transactions. Therefore, we cannot assure you that all such transactions were on terms that are at least as beneficial to us as the terms we could have obtained in a similar transaction with an unrelated third party.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Owning Our Common Stock

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

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

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

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

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

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

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

Table of Contents

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

Upon completion of this offering, our executive officers, directors and principal stockholders and their affiliates will own approximately 57.1% of our outstanding common stock, or 51.9% if the underwriters exercise their over-allotment option in full. If these stockholders act together, they would be able to elect our board of directors and control all other matters requiring approval by stockholders, including the approval of mergers, going private transactions and other extraordinary transactions, as well as the terms of any of these transactions. This concentration of ownership could have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which could in turn have an adverse effect on the market price of our common stock or prevent our stockholders from realizing a premium over the then-prevailing market price for their shares of common stock.

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

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

Assuming completion of this offering, based on our shares outstanding as of July 3, 2004, we will have a total of 20,598,925 fully diluted shares of common stock outstanding, including shares underlying currently outstanding options. Of these 20,598,925 shares, 13,116,925 shares were not sold in this offering and are restricted securities, which means the holder acquired these securities from us or an affiliate in a transaction that did not involve a public offering. These shares may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rule 144 of the Securities Act. At this time, following the lapse of contractual restrictions imposed by the underwriters, all restricted securities, whether or not held by our affiliates, will be eligible to be sold, subject to certain volume and other limitations under Rule 144 under the Securities Act. Shares sold in the offering to our affiliates will also be subject to Rule 144 of the Securities Act. In addition, beginning six months after completion of this offering, the holders of approximately 11,958,259 shares of our common stock have the right to require us to register the sale of their shares of our common stock under the Securities Act.

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

The initial public offering price of $20.00 per share is substantially higher than the net tangible book value per share of our outstanding common stock both before the offering, $3.77 per share, and after the offering, $4.79 per share. As a result, purchasers of our common stock in this offering will incur immediate, substantial dilution in the amount of $15.21 per share based on the assumed initial public offering price. In the past we have granted options to our key employees to purchase our common stock, and we expect to continue to grant a substantial number of options in the future. We have also adopted an employee stock purchase plan under which we expect to issue or sell shares of our common stock. These grants of options and other issuances could also result in dilution to stockholders. In addition, if we issue preferred stock, the rights of the holders of common stock will be subject to, and may be harmed by, the rights of the holders of any preferred stock. See Dilution.

Our certificate of incorporation and bylaws and Delaware law contain provisions that may prevent or frustrate attempts to replace or remove our current management by our stockholders, even if such replacement or removal may be in our stockholders best interests.

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

- restrict various types of business combinations with significant stockholders;

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

These provisions may:

- discourage, delay or prevent a change in the control of our company or a change in our management, even if such change may be in the best interests of our stockholders;
- adversely affect the voting power of holders of common stock; and
- limit the price that investors might be willing to pay in the future for shares of our common stock.

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

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

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

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

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

Table of Contents

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately $25.7 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares by the selling stockholders, nor will we receive any proceeds from the sale of additional shares relating to the underwriters over-allotment option, if exercised.

The principal purpose of this offering is to establish a public market for our common stock. We expect to use approximately $15.0 million of the net proceeds of this offering to fund the opening of new stores, $2.0 million to fund the remodeling of existing stores, $3.0 million for working capital and $5.7 million for general corporate purposes.

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

DIVIDEND POLICY

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

Table of Contents

CAPITALIZATION

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

on an actual consolidated basis;

on a pro forma basis giving effect to the special $10.0 million cash dividend paid in August 2004, the automatic conversion of all of our outstanding shares of preferred stock as of this date upon completion of this offering and the effect of the recognition of unearned compensation upon the acceleration of the vesting of outstanding stock options; and

on a pro forma as adjusted basis giving effect to the special $10.0 million cash dividend paid in August 2004, the automatic conversion of all of our outstanding shares of preferred stock as of this date upon completion of this offering, the effect of the recognition of unearned compensation upon the acceleration of the vesting of outstanding stock options and the issuance and sale of 1,500,000 shares of common stock at an initial public offering price of $20.00 per share, less underwriting discounts and commissions and estimated offering expenses.

	As of July 3, 2004		
	Actual	Pro Forma	Pro Forma as Adjusted
		(Dollars in thousands, except per share data)	
Cash and cash equivalents	$26,315	$16,315	$42,015
Total debt			
Redeemable convertible preferred stock, par value $0.01: 25,000,000 aggregate redeemable and nonredeemable preferred shares authorized; 6,134,003 shares issued and outstanding, actual; no shares issued and outstanding, pro forma and pro forma as adjusted	38,875		
Stockholders equity:			
Nonredeemable convertible preferred stock, par value $0.01: 25,000,000 aggregate redeemable and nonredeemable preferred shares authorized; 9,433,518 shares issued and outstanding, actual; no shares issued and outstanding, pro forma and pro forma as adjusted	94		
Common stock, par value $0.01: 25,000,000 shares authorized; 734,953 shares issued and outstanding, actual; 18,051,642 shares issued and outstanding, pro forma; 19,551,642 shares issued and outstanding, pro forma as adjusted	7	181	196
Additional paid-in capital	12,808	51,603	77,288
Retained earnings	21,567	9,687	9,687
Notes receivable	(1,868)	(1,868)	(1,868)
Unearned compensation	(1,880)		
Total stockholders equity	30,728	59,603	85,303
Total capitalization	$69,603	$59,603	$85,303

The table above does not include:

1,047,283 shares of our common stock issuable upon exercise of options outstanding as of July 3, 2004 under our 2000 stock option plan and our 2002 stock incentive plan, at a weighted average exercise price of $6.52 per share;

up to 2,073,820 additional shares of our common stock reserved for issuance under our 2004 stock incentive plan;

1,000,000 shares of our common stock issuable pursuant to our 2004 associate stock purchase plan; and

a total of 50,000,000 shares of common stock and 15,000,000 shares of preferred stock that will be authorized upon completion of the offering.

Management believes the pro forma and pro forma as adjusted data above, giving effect to the special $10.0 million cash dividend paid in August 2004, is useful to investors, due to the materiality of such transactions. You should read this information in conjunction with the information under Selected Consolidated Financial and Operating Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and related notes appearing elsewhere in this prospectus.

Table of Contents

DILUTION

If you invest in our common stock, your interest will be immediately diluted to the extent of the difference between the public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after this offering. Our net tangible book value as of July 3, 2004, was approximately $68.0 million, or $3.77 per share of our common stock. Net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities and divided by the total number of shares of common stock outstanding after giving effect to the conversion of all outstanding shares of preferred stock into common stock upon completion of this offering. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the net tangible book value per share of our common stock immediately afterwards. After giving effect to our sale of 1,500,000 shares of common stock offered by this prospectus at an initial public offering price of $20.00 per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value will be $93.7 million, or approximately $4.79 per share. This represents an immediate increase in pro forma net tangible book value of $1.02 per share to existing stockholders and an immediate dilution in pro forma net tangible book value of $15.21 per share to new investors purchasing shares of common stock in this offering. After giving effect to our sale of 1,500,000 shares of common stock offered by this prospectus at an initial public offering price of $20.00 per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us and giving effect to the special $10.0 million cash dividend paid in August 2004 our pro forma as adjusted net tangible book value will be $83.7 million, or approximately $4.28 per share. This represents an immediate increase in pro forma as adjusted net tangible book value of $1.07 per share to existing stockholders and an immediate dilution in pro forma as adjusted net tangible book value of $15.72 per share to new investors purchasing shares of common stock in this offering. The following table illustrates this per share dilution:

	Pro Forma		Pro Forma As Adjusted	
Initial public offering price per share		$20.00		$20.00
Net tangible book value per share (1)	$3.77		$3.21	
Increase per share attributable to new investors	1.02		1.07	
Pro forma net tangible book value per share after this offering		4.79		4.28
Dilution per share to new investors		$15.21		$15.72

(1) Net tangible book value per share is presented as of July 3, 2004 and, on an adjusted basis, gives effect to the payment of a special $10.0 million cash dividend to our stockholders in August 2004.

Management believes net tangible book value per share, giving effect to the special $10.0 million cash dividend paid in August 2004, is useful to investors, due to the materiality of such transaction.

The following table sets forth, as of July 3, 2004, the differences between the number of shares of common stock purchased from us, the total consideration paid and average price per share paid by our existing stockholders and by the new investors, before deducting expenses payable by us, at an initial public offering price of $20.00 per share.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders	18,051,642	92.3%	$46,745,403	60.9%	$ 2.59
New investors	1,500,000	7.7	30,000,000	39.1	20.00
Total	19,551,642	100.0%	$76,745,403	100.0%	3.93

Table of Contents

The tables above exclude 1,047,283 shares of common stock issuable upon exercise of options outstanding as of July 3, 2004 having a weighted average exercise price of $6.52 per share. To the extent that these options are exercised, there will be further dilution to new investors.

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

- the number of shares of common stock held by our existing stockholders will decrease to approximately 56.0% of the total number of shares of common stock outstanding; and

- the number of shares held by new public investors will increase to 8,604,300, or approximately 44.0% of the total number of shares of our common stock outstanding after this offering.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

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

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

	Fiscal Year Ended(1)					Pro Forma for the Year Ended	26 Weeks Ended(1)		Pro Forma for the 26 Weeks Ended
	January 1, 2000	December 30, 2000	December 29, 2001	December 28, 2002	January 3, 2004	January 3, 2004(2)	June 28, 2003	July 3, 2004	July 3, 2004(2)
	(Dollars in thousands)								
Statement of operations data:									
Total revenues	$18,101	$55,408	$106,622	$169,138	$213,672		$92,583	$135,727	
Costs and expenses:									
Cost of merchandise sold	9,256	29,090	56,708	90,848	116,515		51,929	70,146	
Selling, general and administrative	9,091	23,713	41,100	65,628	81,091		36,084	48,632	
Store preopening	908	2,292	3,124	3,091	3,045		1,491	580	
Impairment charge			1,006						
Litigation settlement			1,550						
Interest expense (income), net	(84)	(98)	64	(88)	(58)		(55)	(98)	
Total costs and expenses	19,171	54,997	103,552	159,479	200,593		89,449	119,260	
Income (loss) before income taxes and minority interest(3)	(1,070)	411	3,070	9,659	13,079		3,134	16,467	
Minority Interest			122						
Income (loss) before income taxes	(1,070)	411	3,192	9,659	13,079		3,134	16,467	
		(36)	1,287	3,791	5,101		1,285	6,258	

Income tax expense (benefit)(3)									
Net income (loss)	(1,070)	447	1,905	5,868	7,978	$ 7,978	1,849	10,209	$ 10,209
Cumulative dividends and accretion of redeemable preferred stock		343	824	1,971	1,970		985	985	
Cumulative dividends on nonredeemable preferred stock		342	455	455	455		228	227	
Net income (loss) attributable to common and participating preferred stockholders	$ (1,070)	$ (238)	$ 626	$ 3,442	$ 5,553	$ 7,978	$ 636	$ 8,996	$ 10,209

Table of Contents

	Fiscal Year Ended(1)					Pro Forma for the Year Ended	26 Weeks Ended(1)		Pro Forma for the 26 Weeks Ended
	January 1, 2000	December 30, 2000	December 29, 2001	December 28, 2002	January 3, 2004	January 3, 2004(2)	June 28, 2003	July 3, 2004	July 3, 2004(2)
	(Dollars in thousands, except per share and per gross square foot data)								
Net income (loss) allocated to common stockholders	$ (1,070)	$ (238)	$ 19	$ 77	$ 124	$ 7,978	$ 14	$ 261	$ 10,209
Net income (loss) allocated to participating preferred stockholders	$	$	$ 607	$ 3,365	$ 5,429	$	$ 622	$ 8,735	$
Earnings (loss) per common share(4):									
Basic	$ (5.83)	$ (1.09)	$ 0.09	$ 0.35	$ 0.57	$ 0.46	$ 0.07	$ 0.92	$ 0.58
Diluted	$ (5.83)	$ (1.09)	$ 0.07	$ 0.32	$ 0.45	$ 0.44	$ 0.07	$ 0.57	$ 0.57
Shares used in computing per share amounts									
Basic	183,487	217,519	217,519	217,519	217,519	17,534,217	217,519	284,731	17,601,429
Diluted	183,487	217,519	9,101,143	12,055,458	17,546,348	18,006,638	9,367,692	17,938,328	18,031,921
Other financial data:									
Gross margin ($)(5)	$ 8,798	$ 26,144	$ 49,913	$ 78,275	$ 96,912		$ 40,559	$ 65,273	
Gross margin (%)(5)	48.6%	47.2%	46.8%	46.3%	45.4%		43.9%	48.2%	
Capital expenditures(6)	$ 5,833	$ 14,860	$ 21,624	$ 18,718	$ 18,362		$ 10,338	$ 4,438	
Depreciation and amortization	870	2,185	4,588	7,775	11,065		4,939	6,030	
Cash flow data:									
Cash flows provided by (used in) operating activities	$ (472)	$ 7,886	$ 14,482	$ 18,664	$ 25,215		$ (1,004)	$ 10,809	
Cash flows used in investing activities	(6,509)	(15,564)	(23,280)	(20,232)	(20,480)		(11,177)	(5,095)	
Cash flows provided by (used in) financing activities	6,587	12,874	19,256	(121)					
Store data(7):									
Number of stores at end of period	14	39	71	108	150		123	157	
Average net sales per store(8)(9)	$ 2,109	$ 2,205	$ 2,003	$ 1,904	$ 1,605		$ 791	$ 879	
Net sales per gross square foot(9)(10)	$ 746	$ 705	$ 634	$ 582	$ 502		$ 247	$ 287	
	18.2%	5.1%	(6.7)%	(9.7)%	(15.9)%		(16.5)%	13.8%	

Comparable store sales change (%)(11)

	January 1, 2000	December 30, 2000	December 29, 2001	December 28, 2002	January 3, 2004	July 3, 2004 Actual	July 3, 2004 Pro Forma as Adjusted (12)
				(Dollars in thousands)			
Balance sheet data(1):							
Cash and cash equivalents	$ 1,901	$ 7,098	$17,555	$15,866	$ 20,601	$ 26,315	$ 42,015
Working capital	5,861	12,418	8,983	4,813	7,724	18,656	34,356
Total assets	16,108	40,086	72,854	93,693	111,964	124,833	140,533
Long-term debt	345	1,404					
Redeemable preferred stock		12,116	33,964	35,920	37,890	38,875	
Total stockholders equity	10,705	10,548	11,628	15,526	21,540	30,728	85,303

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

(2) The pro forma statement of operations data for the year ended January 3, 2004 and the 26 weeks ended July 3, 2004 and the pro forma balance sheet data as of July 3, 2004 reflect the pro forma effect of the mandatory conversion of all preferred stock into shares of common stock in connection

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

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

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

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

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

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

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

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

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

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

(12) On a pro forma as adjusted basis to give effect to the special $10.0 million cash dividend paid in August 2004, the automatic conversion of all of our outstanding shares of preferred stock as of this date upon completion of this offering, and the issuance and sale of 1,500,000 shares of common stock at an initial public offering price of $20.00 per share, less underwriting discounts and commissions and estimated offering expenses.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

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

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

Overview

We are the leading, and only national, company providing a make your own stuffed animal interactive entertainment experience under the Build-A-Bear Workshop brand, in which our guests stuff, fluff, dress, accessorize and name their own teddy bears and other stuffed animals. Our concept, which we developed for mall-based retailing, capitalizes on what we believe is the relatively untapped demand for experience-based shopping as well as the widespread appeal of stuffed animals. The Build-A-Bear Workshop experience appeals to a broad range of age groups and demographics, including children, teens, their parents and grandparents. As of October 12, 2004, we operated 165 stores in 39 states and Canada and had eight franchised stores internationally under the Build-A-Bear Workshop brand. In addition to our stores, we market our products and build our brand through our website, which simulates our interactive shopping experience, as well as in event-based locations and sports venues.

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

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

Selected financial data attributable to each segment for fiscal 2001, 2002 and 2003 are set forth in note 19 of the notes to our consolidated financial statements included elsewhere in this prospectus.

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

We believe that we have developed an appealing retail store concept that, for stores open for the entire year, averaged $1.6 million in fiscal 2003, $1.9 million in fiscal 2002 and $2.0 million in fiscal 2001 in net retail sales per store, and, for stores open for the entire period, averaged $879 thousand for the first half of fiscal 2004 and $791 thousand in the first half of fiscal 2003 in net retail sales per store. For a discussion of the decrease in comparable store sales in fiscal years 2001 through 2003, see Revenues. Store contribution, which consists of net income before income tax expense, interest, store depreciation and amortization, store preopening expense and general and administrative expense, excluding franchise fees, license revenues and contribution from our webstore and seasonal event-based locations, as a

Table of Contents

percentage of net retail sales, excluding revenue from our webstore and seasonal and event-based locations, was 22.8% for fiscal 2003 and 26.4% for the first half of fiscal 2004, and total company net income as a percentage of total revenues was 3.7% for fiscal 2003 and 7.5% for the first half of fiscal 2004. See Non-GAAP Financial Measures for a reconciliation of store contribution to net income. The store contribution of our average store, coupled with the fact that we had opened 120 stores since the beginning of fiscal 2001 and improved expense management, primarily through improved labor planning and reductions in store supply and other expenses in 2003, have been the primary reasons for our net income increasing during each of the last five fiscal years. Strong comparable store sales for the first half of fiscal 2004, along with the factors cited above, have been the primary reason for our increase in net income in the first half of fiscal 2004 as compared to the first half of fiscal 2003. Additionally, as we have added stores and grown our sales volume, the quantities of merchandise and supplies we purchase have increased which has created economies of scale for our vendors allowing us to obtain reduced costs for these items and increase our profitability.

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

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

We expect the additional revenue contribution from our increased marketing to be greater than the total expense of the program. By improving our store productivity primarily as a result of comparable store sales increases, we expect to improve our store contribution as a percentage of net retail sales by better leveraging our store level operating expenses, primarily those which are fixed such as occupancy, over increased net retail sales per store. As we grow our total revenues, we also expect to decrease our general and administrative expenses as a percentage of revenues beginning in fiscal 2005 by leveraging these expenses, primarily those which are largely fixed such as management payroll and occupancy, over an increased revenue amount. This decrease will be partially offset by some increases in general and administrative expenses, including marketing, to support more stores and our growing franchise and licensing businesses.

Recent Developments

For the 13 weeks ended October 2, 2004 we had total revenues of $66.5 million, compared to $48.0 million in total revenues for the 13-week period ended September 27, 2003, a 38.7% increase. This increase was primarily a result of an 18.8% increase in comparable store sales for the 13 weeks and sales from 22 new stores opened since September 27, 2003.

For the 39 weeks ended October 2, 2004, we had total revenues of $202.2 million, compared to $140.5 million in total revenues for the 39-week period ended September 27, 2003, a 43.9% increase. We had a 15.6% increase in comparable store sales during this period.

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

Revenues

Net retail sales. Net retail sales are revenues from retail sales (including our web store and other non-mall locations), are net of discounts, exclude sales tax, and are recognized at the time of sale. Revenues from gift certificates are recognized at the time of redemption. Our guests use cash, checks and

Table of Contents

third party credit cards to make purchases. We classify stores as new or comparable stores and do not include our webstore or seasonal, event-based locations in our store count or in our comparable store calculations. Stores enter the comparable store calculation in their thirteenth full month of operation.

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

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

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

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

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

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

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

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

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

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

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

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

As of October 12, 2004, we had eight stores under franchise arrangements in the United Kingdom, South Korea, Japan and Denmark. In addition, we have agreements with franchisees in Australia and France and recently entered into an agreement covering the Republic of China (Taiwan). Seven of our franchised stores were opened in fiscal 2004.

Table of Contents

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

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

Costs and Expenses

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

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

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

Central office general and administrative expenses have grown over time in order to support the increased number of stores in operation and we believe will continue to grow as we add stores, but we expect this increase to be at a lower rate than the percentage increase in total revenues beginning in fiscal 2005. Store advertising has increased significantly with the introduction in fiscal 2004 of our national television and online advertising campaign and we anticipate increasing advertising expense as a percentage of net retail sales in the second half of fiscal 2004. Increases in comparable store sales results beginning in fiscal 2004 as well as improvements in store labor planning in the latter half of fiscal 2003 have resulted in lower store payroll as a percentage of net retail sales for the first half of fiscal 2004. Other store expenses such as credit card fees and supplies historically have increased or decreased proportionately with net retail sales.

We granted options during the twenty-six weeks ended July 3, 2004 at an exercise price of $8.78 per share, which had been determined to be the fair value of our common stock at the time based on an independent appraisal. Subsequent to such grants, we determined that the fair value of the underlying common stock should have been deemed to be approximately $15.00 per share. This determination will result in the recording of stock-based compensation of $1.9 million over the vesting period of the 302,234 underlying options issued. Accordingly, we will record stock-based compensation of $490,000 and $245,000, respectively, in the third quarter and fourth quarter of 2004. In the event of the completion of this offering, the vesting of the outstanding options will be accelerated resulting in the recording of stock-based compensation for any unamortized balance of the stock-based compensation at such time.

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

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

Income taxes: Prior to April 3, 2000, we were organized as a limited liability company. During that period, we were classified for federal income tax purposes as a partnership and accordingly paid no income

Table of Contents

taxes as a corporation. Effective April 3, 2000, we were reorganized as a C-corporation under the Internal Revenue Code and since then have been liable for federal and state income taxes.

Expansion and Growth Potential

U.S. and Canadian Stores:

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

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

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

Non-Store Locations:

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

International Franchise Revenue:

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

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

We expect our current six franchisees to open a total of ten to twelve stores during fiscal 2004, of which four had already opened as of July 3, 2004. Thereafter, we anticipate signing additional master franchise agreements, which typically grant franchise rights for a particular country. We expect our current and future franchisees to open between 15 and 20 stores in fiscal 2005. We believe there is a market potential for approximately 350 franchised stores outside of the United States and Canada. To date, franchise revenue has been minimal.

License Revenue:

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

Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Store preopening. Store preopening expense was $3.1 million for fiscal 2002 as compared to $3.1 million for fiscal 2001. Five more new stores were opened in fiscal 2002 than in fiscal 2001 (37 as compared to 32). The average expense per store was $84 thousand in fiscal 2002 as compared to $98 thousand in fiscal 2001, a 14.4% decrease. This reduction in average preopening expense per store was

Table of Contents

primarily the result of a reduction in the number of weeks of training prior to store opening for store management as well as reduced startup supplies expense as a result of improved purchasing power due to the increases in sales volumes.

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

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

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

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

Non-GAAP Financial Measures

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

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

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

Table of Contents

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

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

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

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

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

Table of Contents

Seasonality and Quarterly Results

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

	Fiscal Year Ended December 28, 2002				Fiscal Year Ended January 3, 2004				Fiscal 2004	
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter(1)	First Quarter(2)	Second Quarter
	(Dollars in millions, except per share data)									
Total revenues	$37.2	$ 36.9	$42.3	$52.6	$47.9	$ 44.7	$48.0	$73.1	$69.6	$66.1
Gross margin	17.7	16.8	19.2	24.5	21.5	19.1	20.4	35.9	33.5	31.7
Net income	2.6	0.2	1.1	2.0	1.4	0.5	0.9	5.3	5.3	4.9
Net income allocated to common stockholders	*	*	*	*	*	*	*	0.1	0.1	0.1
Earnings per common share:										
Basic	0.20	(0.04)	0.05	0.14	0.08	(0.01)	0.03	0.48	0.48	0.44
Diluted	0.15	(0.04)	0.05	0.11	0.08	(0.01)	0.03	0.30	0.30	0.27
Number of stores (end of quarter)	73	87	100	108	109	123	143	150	151	157

* For purposes of earnings per share, net income is allocated between common and participating preferred shares. For each of the periods indicated, net income allocated to common stockholders was less than $100,000.

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

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

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

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

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

Our operating results for one period may not be indicative of results for other periods, and may fluctuate significantly because of a variety of factors, including those discussed under Risk Factors Fluctuations in our quarterly results of operations could cause the price of our common stock to substantially decline.

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

Historically, for stores open more than twelve months, seasonality has not been a significant factor in our results of operations, although we cannot assure you that this will continue to be the case. In addition, for accounting purposes, the quarters of each fiscal year consist of 13 weeks, although we will have a 14-week quarter approximately once every six years, including the quarter ended January 3, 2004. Quarterly fluctuations and seasonality may cause our operating results to fall below the expectations of securities analysts and investors, which could cause our stock price to fall.

Liquidity and Capital Resources

Our cash requirements are primarily for the opening of new stores, information systems and working capital. Historically, we have met these requirements through capital generated from the sale and issuance

of our securities to private investors, cash flow provided by operations and our revolving line of credit. From our inception to December 2001, we raised at various times a total of $44.9 million in capital from several private investors. Since fiscal 2002, cash flows provided by operating activities have exceeded cash flows used in investing activities.

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

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

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

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

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

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

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

Off-Balance Sheet Arrangements

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

Contractual Obligations and Commercial Commitments

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

	Payments Due by Fiscal Period as of July 3, 2004						
	Total	**2004**	**2005**	**2006**	**2007**	**2008**	**Beyond**
				(In thousands)			
Long-term debt obligations	$	$	$	$	$	$	$
Operating lease obligations	187,940	9,760	22,399	22,713	23,004	23,219	86,845
Purchase obligations							