

Part 1

ITEM 1. BUSINESS

Overview

Build-A-Bear Workshop, Inc., a Delaware corporation, was formed in 1997 and is primarily a specialty retailer offering a “make your own stuffed animal” interactive retail-entertainment experience. As of December 28, 2013, we operated 323 company-owned retail stores in the United States, Canada, the United Kingdom and Ireland, including 252 traditional and 11 non-traditional Build-A-Bear Workshop® stores in the United States and Canada and 58 traditional and two non-traditional Build-A-Bear Workshop stores in the United Kingdom and Ireland. In addition, franchisees operated 86 Build-A-Bear Workshop stores in other international locations.

Segments and Geographic Areas

We conduct our operations through three reportable segments consisting of retail, international franchising, and commercial. Our reportable segments are primarily determined by the types of customers they serve and the types of products and services that they offer. Each reportable segment may operate in many geographic areas. Financial information related to our segments and the geographic areas in which we operate is contained in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” See Note 16 – Segment Information to the Consolidated Financial Statements for information regarding sales, results of operations and identifiable assets of the Company by business segment and geographic area.

Description of Operations

Currently, we primarily operate specialty retail stores that provide a “make your own stuffed animal” interactive entertainment experience in which our guests visit eight stuffed animal making stations: Choose Me, Hear Me, Stuff Me, Stitch Me, Fluff Me, Dress Me, Name Me, and Take Me Home®. In our new store design, we have added an additional Love Me station to our signature process. Our retail concept is a unique combination of experience and product and we are focused on enhancing our brand equity while meeting the needs of consumers by offering premium products that meet high quality standards, offer a relevant selection and are trend-right. We seek to provide outstanding guest service and experiences across all channels and touch points including our stores, our Web sites, our mobile sites and apps as well as traditional and social media. Our store experience appeals to a broad range of age groups and demographics, including children, teens, their parents and grandparents. We have relatively balanced seasonality on a quarterly basis and guests visit our stores for multiple reasons including interactive family experiences, birthdays, parties and other milestone occasion celebrations and to purchase gifts including the “gift of

experience” that comes with a Bear Bucks® gift card. We believe the hands-on and interactive nature of our store and high touch service model result in guests forming an emotional connection with our brand.

We believe there are opportunities in the future to leverage the strength of the Build-A-Bear brand and generate incremental revenue and profits given the high consumer recognition and strong positioning as a trusted, high quality brand that is emotionally connected with both kids and their parents.

Operating Strategies

Our company is in the midst of a multi-year turnaround plan that builds on a strong base of profitable stores and focuses on four key strategies:

1. Optimize our real estate portfolio: In North America, we are closing stores, primarily in multi-store markets where we can transfer a portion of sales to other stores in the same markets. Additionally, in conjunction with lease renewals, we will strategically refresh and upgrade other stores with key features. In 2013, we closed 37 stores and transferred approximately 20% of sales from closed stores to other ongoing stores in the same markets and remodeled 20 stores in a new design;
2. Refine the consumer value equation: We continue to reposition and integrate our marketing programs to focus on brand building and new product launches while also reducing discounts and price promotions. We believe that our brand building initiatives drove approximately 70% of North America’s 5.7% annual comparable store sales increase in 2013 with the balance coming from real estate optimization actions. Additionally, in 2013, we reduced discounts in North America by 30%;
3. Rationalize our expense structure: We are in the ongoing process of value engineering our product designs and we have initiated an end-to-end review of our supply chain to identify opportunities to improve product margins and leverage selling, general and administrative expenses. In 2013, we expanded product margins and decreased selling, general and administrative expenses. The expense savings resulted from closed stores, renegotiation of terms with vendors and suppliers, and adjustments to our store labor model to better align to guest traffic patterns; and
4. Build on our core competencies: We continue to focus on improving our high touch retail service model and customizable product offerings. We are also laying the groundwork to further leverage the strength of the Build-A-Bear brand and generate incremental revenue and profits.