

BUILD A BEAR WORKSHOP INC
Form 10-Q
November 08, 2007
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 29, 2007

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number: 001-32320

BUILD-A-BEAR WORKSHOP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of

Incorporation or Organization)

1954 Innerbelt Business Center Drive

St. Louis, Missouri
(Address of Principal Executive Offices)

43-1883836
(I.R.S. Employer

Identification No.)

63114
(Zip Code)

(314) 423-8000

Edgar Filing: BUILD A BEAR WORKSHOP INC - Form 10-Q

(Registrant's Telephone Number, Including Area Code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of November 5, 2007, there were 20,656,847 issued and outstanding shares of the registrant's common stock.

Table of Contents

BUILD-A-BEAR WORKSHOP, INC.

INDEX TO FORM 10-Q

	Page
<u>Part I – Financial Information</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Operations</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	27
<u>Part II – Other Information</u>	
Item 1A. <u>Risk Factors</u>	29
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 5. <u>Other Information</u>	30
Item 6. <u>Exhibits</u>	31
<u>Signatures</u>	32

Table of Contents**PART I-FINANCIAL INFORMATION****Item 1. Financial Statements****BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

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

	September 29, 2007	December 30, 2006 (Revised)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,990	\$ 53,109
Inventories	54,532	50,905
Receivables	8,791	7,389
Prepaid expenses and other current assets	16,302	11,805
Deferred tax assets	2,690	2,388
Total current assets	99,305	125,596
Property and equipment, net	137,414	130,347
Goodwill	43,068	41,827
Other intangible assets, net	2,799	2,873
Other assets, net	12,455	4,027
Total Assets	\$ 295,041	\$ 304,670
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 35,761	\$ 45,561
Accrued expenses	7,281	16,301
Gift cards and customer deposits	18,610	28,128
Deferred revenue	7,350	6,454
Total current liabilities	69,002	96,444
Deferred franchise revenue	2,568	2,297
Deferred rent	39,160	34,754
Other liabilities	221	352
Deferred tax liabilities	476	459
Stockholders' equity:		
Preferred stock, par value \$0.01, Shares authorized: 15,000,000; No shares issued or outstanding at September 29, 2007 and December 30, 2006		
Common stock, par value \$0.01, Shares authorized: 50,000,000; Issued and outstanding: 20,636,483 and 20,537,421 shares, respectively		
	207	205
Additional paid-in capital	87,138	88,866
Accumulated other comprehensive income	7,447	5,103
Retained earnings	88,822	76,190

Edgar Filing: BUILD A BEAR WORKSHOP INC - Form 10-Q

Total stockholders' equity	183,614	170,364
Total Liabilities and Stockholders' Equity	\$ 295,041	\$ 304,670

See accompanying notes to consolidated financial statements.

Table of Contents**BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

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

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Revenues:				
Net retail sales	\$ 108,357	\$ 100,582	\$ 323,342	\$ 291,274
Franchise fees	934	649	2,306	1,975
Licensing revenue	474	288	1,314	558
Total revenues	109,765	101,519	326,962	293,807
Costs and expenses:				
Cost of merchandise sold	61,387	58,130	181,176	160,180
Selling, general and administrative	42,547	38,073	123,374	108,307
Store preopening	1,430	1,127	3,487	3,324
Interest expense (income), net	(388)	(192)	(1,289)	(1,357)
Total costs and expenses	104,976	97,138	306,748	270,454
Income before income taxes	4,789	4,381	20,214	23,353
Income tax expense	1,812	1,669	7,580	9,296
Net income	\$ 2,977	\$ 2,712	\$ 12,634	\$ 14,057
Earnings per common share:				
Basic	\$ 0.15	\$ 0.13	\$ 0.62	\$ 0.70
Diluted	\$ 0.15	\$ 0.13	\$ 0.62	\$ 0.69
Shares used in computing common per share amounts:				
Basic	20,242,402	20,176,642	20,248,949	20,135,944
Diluted	20,411,095	20,438,226	20,454,767	20,429,034

See accompanying notes to consolidated financial statements.

Table of Contents**BUILD-A-BEAR WORKSHOP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(in thousands)

	Thirty-nine weeks ended	
	September 29, 2007	September 30, 2006
Cash flows from operating activities:		
Net income	\$ 12,634	\$ 14,057
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,207	16,049
Deferred taxes	(627)	(3,195)
Tax benefit from stock option exercises	(225)	(802)
Loss on disposal of property and equipment	287	73
Stock-based compensation	2,213	1,959
Change in assets and liabilities:		
Inventories	(4,026)	(4,690)
Receivables	(1,759)	77
Prepaid expenses and other assets	(5,057)	(2,599)
Accounts payable	(8,332)	(7,650)
Accrued expenses and other liabilities	(14,041)	(9,899)
Net cash provided by operating activities	274	3,380
Cash flows from investing activities:		
Purchases of property and equipment, net	(24,812)	(46,054)
Purchases of other assets and other intangible assets	(8,198)	(1,720)
Purchases of business, net of cash acquired		(39,061)
Cash flow used in investing activities	(33,010)	(86,835)
Cash flows from financing activities:		
Exercise of employee stock options and employee stock purchases	554	1,492
Purchases of Company's common stock	(4,270)	
Tax benefit from stock option exercises	225	802
Cash flow (used in) provided by financing activities	(3,491)	2,294
Effect of exchange rates on cash	108	48
Net decrease in cash and cash equivalents	(36,119)	(81,113)
Cash and cash equivalents, beginning of period	53,109	90,950
Cash and cash equivalents, end of period	\$ 16,990	\$ 9,837
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	\$ 19,763	\$ 18,835
Noncash Transactions:		

Edgar Filing: BUILD A BEAR WORKSHOP INC - Form 10-Q

Return of common stock in lieu of tax withholdings and option exercises	\$	501	\$	211
Return of common stock for repayment of note receivable from officer	\$		\$	141

See accompanying notes to consolidated financial statements.

Table of Contents**Notes to Consolidated Financial Statements****1. Basis of Presentation**

The condensed consolidated financial statements included herein are unaudited and have been prepared by Build-A-Bear Workshop, Inc. and its subsidiaries (collectively, the Company) pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet of the Company as of December 30, 2006 (revised) was derived from the Company's audited consolidated balance sheet as of that date. All other condensed consolidated financial statements contained herein are unaudited and reflect all adjustments which are, in the opinion of management, necessary to summarize fairly the financial position of the Company and the results of the Company's operations and cash flows for the periods presented. All of these adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. Because of the seasonal nature of the Company's operations, results of operations of any single reporting period should not be considered as indicative of results for a full year. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the fiscal year ended December 30, 2006 included in the Company's annual report on Form 10-K filed with the SEC on March 15, 2007.

2. Correction to Prior Periods

During the third quarter of 2007, the Company determined that it had incorrectly reported depreciation and amortization and purchases of property and equipment, net, in the consolidated statements of cash flows for the twenty-six weeks ended June 30, 2007. The \$1.3 million error resulted in the understatement of cash used in operating activities and the overstatement of cash used in investing activities. The net change in cash and cash equivalents was not impacted. This also resulted in a \$1.3 million overstatement of capital expenditures and depreciation and amortization for the retail segment as presented in the segment footnote. The error had no impact to the consolidated balance sheet as of June 30, 2007, the consolidated statement of operations for the twenty-six weeks ended June 30, 2007, or the net decrease in cash and cash equivalents reported in the consolidated statement of cash flows as of June 30, 2007.

In connection with the Company's acquisition of The Bear Factory Limited, a stuffed animal retailer in the United Kingdom, and Amsbra Limited, the Company's former United Kingdom franchisee, the Company recorded goodwill. As noted in the Company's Form 10-Q for the second quarter of 2007, the Company determined that it had incorrectly accounted for the note receivable and related interest due from Amsbra Limited and subsequent foreign currency translation effects resulting in understatements of goodwill, other comprehensive income, and comprehensive income, and an overstatement in accounts payable. In addition, comprehensive income in the second quarter was misstated and should have been reported as \$2.7 million and \$10.9 million in the thirteen weeks and twenty-six weeks ended June 30, 2007, respectively. The correction had no impact on the consolidated statement of operations or consolidated statement of cash flows as of December 30, 2006. Based on the above assessments the Company has revised the December 30, 2006 consolidated balance sheet within this filing. The impact of the error as of December 30, 2006 resulted in an increase in goodwill of \$4.9 million, an increase in other comprehensive income and comprehensive income of \$6.1 million and a reduction in accounts payable of \$1.2 million.

As a result of the errors discussed above the Company will restate its previously reported amounts for comprehensive income for the thirteen and twenty-six weeks ended June 30, 2007 and its statement of cash flows for the twenty-six weeks ended June 30, 2007. The errors had no impact to the consolidated balance sheet as of June 30, 2007, the consolidated statement of operations for the twenty-six weeks ended June 30, 2007, or the net decrease in cash and cash equivalents reported in the consolidated statement of cash flows as of June 30, 2007.

3. Business Acquisition

On April 2, 2006, the Company acquired all of the outstanding shares of The Bear Factory Limited (Bear Factory), a stuffed animal retailer in the United Kingdom, and Amsbra Limited (Amsbra), the Company's former U.K. franchisee (collectively, the U.K. Acquisition). The results of the U.K. Acquisition operations have been included in the consolidated financial statements since that date. In conjunction with those transactions, we obtained 40 retail locations in the United Kingdom and Ireland. The aggregate cash purchase price for the U.K. Acquisition was \$39.6 million, excluding cash acquired of \$0.3 million. In addition to the cash purchase price, the Company had previously advanced \$4.5 million to Amsbra as a note receivable. The amount of this note receivable and the related accrued interest is a component of the purchase price.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of U.K. Acquisition (in thousands):

Edgar Filing: BUILD A BEAR WORKSHOP INC - Form 10-Q

Current assets	\$ 7,750
Property and equipment	6,192
Goodwill	35,641
Intangibles	1,824
Total assets acquired	51,407
Current liabilities assumed	(9,357)
Total purchase price	\$ 42,050

Table of Contents

The following unaudited pro forma summary presents the Company's revenue, net income, basic earnings per share and diluted earnings per share as if the U.K. Acquisition had occurred on January 1, 2006 (in thousands, except per share data):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Revenue	\$ 109,765	\$ 101,519	\$ 326,962	\$ 303,031
Net income	2,977	2,712	12,634	12,462
Basic earnings per common share:	\$ 0.15	\$ 0.13	\$ 0.62	\$ 0.62
Diluted earnings per common share:	\$ 0.15	\$ 0.13	\$ 0.62	\$ 0.61

Pro forma adjustments have been made to reflect depreciation and amortization using estimated asset values recognized after applying purchase accounting adjustments.

This pro forma information is presented for informational purposes only and is not necessarily indicative of actual results had the acquisition been effected at the beginning of the respective periods presented, and is not necessarily indicative of future results.

4. Goodwill

In connection with our U.K. Acquisition, we recorded goodwill. This asset was recorded in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* and is reported as a component of the Company's retail segment. The following table summarizes the changes in goodwill for the thirty-nine weeks ended September 29, 2007 (in thousands):

Balance as of December 30, 2006	\$ 41,827
Purchase price adjustments	(245)
Effect of foreign currency translation	