Risk Factors Comparison 2024-04-18 to 2023-04-13 Form: 10-K

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We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially affect our operations. The risks, uncertainties and other factors set forth below may cause our actual results, performances or achievements to be materially different from those expressed or implied by our forward- looking statements. If any of these risks or events occur, our business, financial condition or results of operations may be adversely affected **. Additional risks not currently known to us or that we presently deem immaterial may also impair our business operations** . MACROECONOMIC AND INDUSTRY RISKSAny uncertainty or decline in general global economic conditions, caused by inflation, rising interest rates, geo- political conflicts, or other external factors, could lead to disproportionately reduced discretionary consumer spending and a corresponding reduction in demand for our products and have an adverse effect 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, inflation, levels of employment, salaries and wage rates, consumer confidence and consumer perception of economic conditions. A slowdown in the North American or European economies or in the economies of the countries in which our franchisees and third- party retail partners operate or uncertainty as to the economic outlook could reduce discretionary spending or cause a shift in consumer discretionary spending to other products. For example, the potential adverse effects of inflation, or geopolitical conflicts could result in lower net retail 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. In addition, economic uncertainty can affect the credit and capital markets and our financial condition which may affect our ability to access capital resources under our credit agreement. The amount available for borrowing could be restricted under our agreement if the amount of assets used to calculate the borrowing base (specified percentages of eligible credit card receivables, eligible inventory, and, under certain circumstances, eligible foreign in- transit inventory and, in the discretion of the agent, eligible receivables) decreases. Inflation impacted our business operations in fiscal ~~2022~~ **2023** and had an adverse impact on our business throughout the year, **specifically seen through rising store labor** ~~mainly in freight and other supply chain related~~ costs. Although we took actions to mitigate these pressures, such as strategic price increases on highly sought- after products, there can be no assurance that we will be able continue these actions or that they will be successful in the future. We expect the inflationary pressures experienced in fiscal ~~2022~~ **2023** to decrease but continue into fiscal ~~2023~~ **2024** ~~, specifically in supply chain costs and minimum wage increases compared to the prior year~~ . We continue to monitor the impact of inflation on our business operations on an ongoing basis and may need to adjust our prices further to mitigate the impacts of changes to the rate of inflation during ~~2023~~ **2024** or in future years. These select price increases could have a negative impact on demand for our products. ~~Moreover, these inflationary pressures have caused, and are expected to continue to cause, significant increases in the costs of other products which are required by consumers, such as gasoline, home heating and cooling fuels, or groceries, which in turn are likely to reduce household spending on the types of discretionary products and entertainment we offer.~~ Weakened economic conditions, lowered employment levels or recessions in any of our major markets may also significantly reduce consumer purchases of our products. Economic conditions may also be negatively impacted by terrorist attacks, wars, **geopolitical shifts,** and other conflicts, such as the current Russia- Ukraine crisis **and the Israel- Hamas conflict that has heightened geopolitical tensions in the Middle East region** , as well as natural disasters, increases in commodity prices or labor costs, or the prospect of such events. Such a weakened economic and business climate, as well as consumer uncertainty created by such a climate, could harm our revenues and profitability. ~~9 Our~~ **9Our** success and profitability not only depend on consumer demand for our products, but also on our ability to produce and sell those products at costs which allow us to make a profit. Whether due to inflation or other factors, rising petroleum and material prices, increased transportation and shipping costs, and increased labor costs in the markets in which our products are manufactured and sold all may further increase the costs we incur to produce and transport our products, which in turn may reduce our margins, reduce our profitability, and harm our business, in particular if we are unable to further adjust prices beyond what we were able to do in fiscal ~~2022~~ **2023** , as discussed above. Consumer interests can change rapidly, and our success depends on the ongoing effectiveness of our marketing and online initiatives to build consumer affinity for our brand and drive consumer demand for our products and services. We continue to update and evaluate our marketing initiatives, which are focused on building our brand, sharing relevant product news, executing timely promotions and adapting to rapidly changing consumer preferences. Our future growth and profitability will depend in large part upon the effectiveness and efficiency of our integrated marketing and advertising programs, access to leading entertainment relationships resulting in licensing relationships in a profitable manner and future marketing and advertising efforts that we undertake, including our ability to: • create greater awareness and affinity of our brand, interactive shopping experience and products; • convert consumer awareness into store and e- commerce site visits and product purchases; • identify the optimal level of marketing spend and most efficient marketing channels; • select the right geographic areas in which to market; • determine the appropriate creative message and media mix for marketing programs locally, nationally and internationally; and • effectively manage marketing costs (including creative and media) to maintain acceptable operating margins and return on marketing investment. Our planned marketing expenditures may not result in increased total sales or generate sufficient levels of product and brand awareness, which could also have a material adverse effect on our financial condition and profitability. Additionally, we have shifted a number of our marketing programs to digital outlets which may not continue to be as effective as our more traditional, historical programs. We depend upon the shopping malls and tourist locations in which our stores are located to attract guests. Continued or further volatility in retail consumer traffic could adversely affect our financial performance and profitability. While we invest in integrated marketing efforts and believe we are more of a destination location than **many** other retailers, we rely to a great extent on consumer traffic in the malls and tourist locations in which we are located. We rely on the ability of the malls' anchor tenants, generally large department stores, and on the continuing popularity of malls and tourist locations as shopping destinations to attract high levels of consumer traffic. We cannot control the development of new shopping malls nor the closure of existing 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. While we have had significant growth in our e-commerce sales compared to pre- pandemic levels and continue with initiatives intended to develop and strengthen our online business, the majority of our sales are generated from our physical store locations. Consumer traffic may also be reduced due to factors such as the economy, civil unrest, actual or threatened acts of terrorism or other crime in shopping locations, the impact of weather or natural disasters or a decline in consumer confidence resulting from international conflicts or war. A decrease in consumer traffic could have an adverse effect on our financial condition and profitability. 10 Global or regional health pandemics or...... for our interactive retail experience. Our **10Our** profitability could be adversely affected by fluctuations in petroleum products prices. The profitability of our business depends to a certain degree upon the price of petroleum products, both as a component of the transportation costs for delivery of inventory from our vendors to our stores and as a raw material used in the production of our plush products and stuffing. Volatility in petroleum prices can be due to many external factors that are beyond our control including political, environmental, and economic factors such as hostilities or other conflicts in oil producing areas (including the current Russia- Ukraine conflict **and tensions in the Middle East**), limitations and / or disruptions in refining and pipeline capacity, and worldwide demand for petroleum. We are unable to predict what the price of crude oil and the resulting petroleum products will be in the future. We may be unable to pass along to our guests the increased costs that would result from higher petroleum prices. Therefore, any such increase could have an adverse impact on our business and profitability. Our business may be adversely impacted at any time by a variety of significant competitive threats. We operate in a highly competitive environment characterized by low barriers to entry. We compete against a diverse group of competitors. Because we have mall- based locations, we see our competition as other retailers that compete for prime mall locations, including various apparel, footwear and specialty retailers. As a retailer whose signature product is a stuffed animal that is typically purchased as a toy or gift, we also compete with big box retailers and toy stores, as well as manufacturers that sell plush toys. 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 " make your own " teddy bear and stuffed animal experiences in retail stores and kiosks. Although we believe that none of these companies currently offer the breadth and depth of the Build- A- Bear Workshop products and experience, we cannot be certain 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 be certain 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. The retail sector has experienced an immense increase in sales initiated online and using mobile applications, as well as online sales for both in- store or curbside pick- up. Online and multi- channel retailers continue to focus on delivery services, with consumers increasingly seeking faster, guaranteed delivery times and low-cost or free shipping. Our ability to be competitive on delivery times and delivery costs depends on many factors, and our failure to successfully manage these factors and offer competitive delivery options could negatively impact the demand for our products and our profit margins. ~~11~~ **Global or regional health** pandemics or epidemics ~~,including COVID- 19,~~ could negatively impact our business,financial position and results of operations.The extent to which a pandemic may impact our operational and financial performance remains uncertain and will depend on many factors outside of our control,including the timing,extent,trajectory and duration of the pandemic,the emergence of new variants,the development,availability,distribution and effectiveness of vaccines and treatments,the imposition of protective public safety measures,and the impact of the pandemic on the global economy and demand for our products.Additional future impacts may include,but are not limited to,material adverse effects on demand for our products and interactive experience,supply chain operations disruptions,our ability to execute strategic plans and to predict future performance,and our financial performance and profitability.To the extent a pandemic adversely affects our business,operations,financial condition and operating results,it may also have the effect of heightening many of the other risks described in this " Risk Factors " section,such as those relating to retail consumer traffic,general global economic conditions,and demand for our interactive retail **experience.** ~~OPERATIONAL~~ **11OPERATIONAL** RISKS If we are unable to generate interest in and demand for our interactive retail experience and products, including being able to identify and respond to consumer preferences in a timely manner, our sales, financial condition and profitability could be adversely affected. We believe that our success depends in large part upon our ability to continue to attract new and repeat guests with our interactive shopping experience, and our ability to anticipate, gauge and respond in a timely manner to changing consumer preferences, such as online buying, and fashion trends including licensed relationships. We cannot be certain that there will continue to be a demand for our " make- your- own stuffed animal " interactive experience, including our store design and brand appearance, or for our stuffed animals, related apparel and accessories. A decline in demand for our interactive shopping experience, our stuffed animals, related apparel or accessories, or a misjudgment of consumer preferences, fashion trends or the demand for licensed products, including those that are associated with new movie releases, could have a negative impact on our business, financial condition and results of operations. In addition, negative commentary regarding our company or the products we sell may be posted on social media sites and other platforms at any time and may negatively impact our reputation or business. Our future success depends, in part, on the popularity and consumer demand for brands of licensors such as Disney, NBCUniversal, Lucasfilm, Warner Bros., and Nintendo. If we are not able to meet our contractual commitments or are unable to maintain licensing agreements with key brands, our business would be adversely affected. There can be no certainty that our access to licensed brands will continue to be successful or enable us to maintain high levels of sales in the future and the timing of future entertainment projects may not coincide with the timing of previous successes impacting our ability to maintain sales levels. 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. Failure to successfully execute our omnichannel and...... performance over the longer term. 12 If we are unable to renew, renegotiate 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 revenue and profitability could be harmed. We lease all of our corporately-managed 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. Some store leases only include a provision for a percentage of a store' s total sales, instead of a fixed base rent amount. 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 and the sixth to seventh year of the lease, which may be at either the landlord' s option or ours. Although we have largely shifted our leases in North America to shorter term leases to provide flexibility in aligning stores with market trends, this strategy has risk if we renew leases at a time when commercial rental rates are higher than the rate we could have secured with a longer- term lease. Furthermore, some of our leases contain various restrictions relating to change of control of our company. Our leases also subject us to risks relating to compliance with changing shopping location rules and the exercise of discretion by our landlords on various matters within these locations. We may not be able to maintain or obtain favorable locations within these desirable shopping locations. The terms of new leases may not be as favorable, which could cause an increase in store expenses negatively impacting overall profitability. If we execute termination rights, we may incur expenses and charges associated with those closures that could negatively impact our profitability. Additionally, several landlords dominate the ownership of prime malls, particularly in the U. S. and Canada, and because of our dependence on these landlords for a substantial number of our locations, any significant erosion in their financial conditions or our relationships with these landlords could negatively affect our ability to obtain and retain store locations. Further landlord consolidation may negatively impact our results of operations. Our leases in the U. K. and Ireland also typically contain provisions requiring rent reviews every five years in which the base rent that we pay is adjusted to current market rates. These rent reviews require that base rents cannot be reduced if market conditions have deteriorated but can be changed " upwards only. " We may be required to pay base rents that are significantly higher than we have projected. As a result of these and other factors, we may not be able to operate our European store locations profitably. If we are unable to do so, our results of operations and financial condition could be harmed, and we may be required to record significant additional impairment charges. **Failure** ~~12Fail ure~~ to successfully execute our omnichannel and brand expansion strategy and the cost of our investments in e- commerce and digital transformation may materially adversely affect our financial condition and profitability.The retail industry continues to rapidly evolve and consumers continue to increasingly embrace digital shopping.As a result,the portion of total consumer expenditures with retailers occurring through digital platforms is increasing and the pace of this increase could continue to accelerate.Our strategy,which includes investments in e- commerce platforms,digital technology,and other consumer initiatives,may not adequately or effectively allow us to continue to grow our e-commerce business,increase sales,or grow our position in the specialty retail and gifting and collectibles markets such as adult to adult gifting (e.g. ~~,~~Heartbox),adult driven affinity (e.g. ~~,~~The Bear Cave),and occasion gifting (e.g. ~~,~~graduation,Valentine' s Day).The success of our strategy will depend on our ability to continue building and delivering a seamless omnichannel shopping experience for consumers.With an increasing allocation of capital expenditures focused on digital initiatives,our failure to successfully execute on individual components of this initiative may adversely affect our financial performance.In addition,a greater concentration of e- commerce sales could result in a reduction in the amount of traffic in our brick- and-mortar locations and materially adversely affect our financial performance.Furthermore,the cost of certain investments in e-commerce and digital technology may adversely impact our financial performance in the short- term and failure to realize the benefits of these investments may adversely impact our financial performance over the **longer term.12** We are subject to risks associated with technology and digital operations. Our operations are subject to numerous technology related risks, including risks related to the failure of the computer systems that operate our point of sale and inventory systems, websites and mobile sites and their related support systems. We engage key third- party business partners to support various functions of our business, including, but not limited to, information technology, web hosting and cloud- based services. We, and those third-party businesses that support us, are also subject to risks related to computer viruses, telecommunications failures, and other disruptions. Also, we may require additional capital in the future to sustain or grow our technological infrastructure and digital commerce capabilities. Business risks related to technology and digital commerce include risks associated with the need to keep pace with rapid technological change, internet security risks, risks of system failure or inadequacy, governmental regulation and legal uncertainties with respect to the internet, and collection of sales or other taxes by additional states or foreign jurisdictions. If any of these risks occur, it could have a material adverse effect on our business. Further, as our online sales have increased and have become critical to our growth, the risk of any interruption of our information technology system capabilities is heightened. 13We may not be able to evolve our store locations over time to align with market trends, successfully diversify our store formats and business models in accordance with our strategic goals or otherwise effectively manage our overall portfolio of stores which could adversely affect our ability to grow and could significantly harm our profitability. Our future results will largely depend on our ability to optimize and maintain store productivity and profitability by strategically evolving our real estate portfolio to align with market trends while selectively opening new locations and systematically refreshing our store base. For example, our real estate development initiatives includes a focus on tourist locations due to changing consumer preferences and declining traditional mall traffic and we cannot be certain that this strategy will be successful. Our ability to manage our portfolio of stores in future years, in desirable locations, as well as to operate stores profitably, particularly in multi- store markets, are key factors in our ability to achieve sustained profitable growth. We cannot be certain 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 or relocated stores can be profitably operated. We may decide to close other stores in the future. Additionally, in fiscal ~~2022~~ **2023** we operated ~~25~~ **26** stores located within other retailers' stores and ~~70~~ **92** stores through our" third- party wholesale" model and as such are subject to the operational risks of these companies, including but not limited to, ineffective store operations, labor disputes and negative publicity, all of which could have a negative impact on our sales and operating performance. Our company- owned distribution center that services the majority of our stores in North America and our third- party distribution center providers used in the western U. S. and Europe may be required to close and operations may experience disruptions or may operate inefficiently. The operation of our stores is dependent on our ability to distribute merchandise to locations throughout the U. S., Canada, and Europe in a timely manner. We own a 350, 000- square- foot distribution center in Groveport, Ohio and rely on this warehouse to receive, store and distribute merchandise for the majority of our North American locations and to our third- party retail partners. To operate this distribution center, our ability to meet changing labor needs while controlling our costs is subject to external factors such as labor laws, regulations, unemployment levels, prevailing wage rates, and changing demographics. In addition, we rely on third parties to manage all of the warehousing and distribution aspects of our business in the western U. S. and Europe. For example, as noted above, in Europe, we contract with a third- party distribution center in Selby, England under an agreement that ends in January 2025. Any significant interruption in the operation of the distribution centers due to natural disasters or severe weather, events such as fire, accidents, power outages, system failures, public health issues such as ~~the COVID pandemic~~ **pandemics** ~~(~~ or other ~~future pandemics or~~ health risks ~~)~~ , or other unforeseen causes could damage a significant portion of our inventory. These factors may also impair our ability to adequately stock our stores and fulfill e- commerce orders and could decrease our sales and increase our costs associated with our supply chain. INTERNATIONAL RISKS We rely on a few global supply chain vendors to supply substantially all of our materials and merchandise, and significant price increases or any disruption in their ability to deliver materials and merchandise could harm our ability to source products and supply inventory to our stores. We do not own or operate any factories that produce our plush products, clothing, shoes or accessories. In ~~both~~ fiscal ~~2022~~ **2023** ~~and fiscal 2021,~~ we purchased ~~77~~ **73** % of our merchandise from five vendors **, compared to 77 % in fiscal 2022** . These vendors in turn contract for the production of merchandise with multiple manufacturing facilities. Prior to 2020, over 90 % of merchandise received annually was produced in China ~~,~~ **.** ~~however~~ **However** , our efforts to diversify our supply chain reduced China sourcing to ~~58~~ **63** % of merchandise received as production shifted primarily to Vietnam, which provided ~~34~~ **29** % of our merchandise in ~~2022~~ **2023** . Our relationships with our vendors generally are on a purchase order basis and do not provide a contractual obligation to provide adequate supply or acceptable pricing on a long- term basis. Our vendors could discontinue sourcing merchandise for us at any time. If any of our significant vendors were to discontinue their relationship with us, or if the factories with which they contract were to suffer a disruption in their production, we may be unable to replace the vendors in a timely manner, which could result in short- term or long- term disruption to our inventory flow or quality of the inventory 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. Such disruptions may result from public health issues such as **a** ~~the COVID~~ pandemic ~~(or other future pandemics)~~ , weather related events, natural disasters, trade restrictions, tariffs, changes in local laws, work stoppages or slowdowns, shipping capacity constraints, supply or shipping interruptions, geopolitical issues or other factors beyond our control. Additionally, in the event of a significant price increase from these suppliers, we may not be able to find alternative sources of supply in a timely manner or raise prices to offset the increases, which could have an adverse effect on our business, financial condition and results of operations. **14We** ~~14 We~~ may not be able to operate our international corporately- managed locations profitably. In addition to our U. S. locations, we currently operate stores in the U. K., Canada, and Ireland. Our future success in international markets may be impacted by differences in consumer demand, regulatory and cultural differences, economic conditions, public health issues such as ~~COVID (or other future~~ pandemics ~~)~~ , changes in foreign government policies and regulations, changes in trading status, compliance with U. S. laws affecting operations outside the U. S., such as the Foreign Corrupt Practices Act, as well as other risks that we may not anticipate. Brand awareness and affinity in international markets may be lower than in the U. S. and we may face higher labor and rent costs, as well as different holiday schedules. Although we have realized benefits from our operations in the U. K. and Ireland, we may be unable to continue to do so on a consistent basis. Additionally, we conduct business globally in many different jurisdictions with currencies other than U. S. dollars. Our results could be negatively impacted by changes or fluctuations in currency exchange rates since we report our consolidated financial results in U. S. dollars. For example, we may purchase products in U. S. dollars but sell them to consumers in local currencies, which exposes us to foreign exchange risk, as described in " Our merchandise is manufactured by foreign manufacturers and we transact business in various foreign countries, and the availability and costs of our products, as well as our product pricing, may be negatively affected by risks associated with international manufacturing and trade and foreign currency fluctuations " below. In addition, we could experience restrictions on the transfer of funds to and from foreign countries, including potentially negative tax consequences. Our merchandise is manufactured by foreign manufacturers and we transact business in various foreign countries, and the availability and costs of our products, as well as our product pricing, may be negatively affected by risks associated with international manufacturing and trade and foreign currency fluctuations. We purchase the majority of our merchandise directly from manufacturers in foreign countries, primarily in China and Vietnam. Any event causing a disruption of imports, including the imposition of import restrictions, taxes or fees, or labor strikes or lockouts and pandemics, could adversely affect our business. For example, our vendors in China and Vietnam were temporarily closed for periods of time in 2021 and 2022 as a result of the **COVID** pandemic, ceasing production of inventory and supplies. 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 materials or goods we purchase are manufactured, if the instability affects the production or export of merchandise from those countries. We are subject to trade restrictions in the form of tariffs or quotas, or both, applicable to the products we sell as well as to raw material imported to manufacture those products. Such tariffs or quotas are subject to change. Our compliance with the regulations is subject to interpretation and review by applicable authorities. Change in regulations or interpretation could negatively impact our operations by increasing the cost of and reducing the supply of products available to us. In addition, decreases in the value of the U. S. dollar against foreign currencies, particularly the Chinese renminbi and Vietnamese dong, could increase the cost of products we purchase from our vendors. The pricing of our products in our stores may also be affected by changes in foreign currency rates and require us to make adjustments that would impact our revenue and profit in various markets. We purchase all inventory in U. S. dollars, and our foreign subsidiaries buy their inventory from us in their functional currency, which exposes us to currency risk when their functional currencies fluctuate relative to the U. S. Dollar. Our business ~~in the U. K.~~ may be adversely impacted by ongoing uncertainty, fluctuations in currency exchange rates, changes in trade policies, or changes in labor, immigration, tax, data privacy or other laws. Any of these effects, among others, could materially and adversely affect our business, results of operations, and financial condition. If we are unable to effectively manage our international ~~franchises~~ **partner- operated locations** , attract new ~~franchisees~~ **partners** or if the laws relating to our international ~~franchises~~ **partners** change, our growth and profitability could be adversely affected, and we could be exposed to additional liability. As of ~~January 28~~ **February 3** , ~~2023~~ **2024** , there were ~~68~~ **74** Build- A- Bear Workshop international franchised stores **and international, third party operated locations** . We cannot ensure that our ~~franchisees~~ **international partners** will be successful in identifying and securing desirable locations or in operating their stores. International markets frequently have different demographic characteristics, competitive conditions, consumer tastes and discretionary spending patterns than our corporately- managed markets, which may impact the performance of these stores. Additionally, our ~~franchisees~~ **international partners** may experience financing, merchandising and distribution expenses and challenges that are different from those we encounter in our corporately- managed markets. The operations and results of our ~~franchisees~~ **international partners** could be negatively impacted by the economic, public health (such as ~~COVID~~ **a pandemic**), or political factors in the countries in which they operate or foreign currency fluctuations. These challenges, as well as others, could have a material adverse effect on their business and in turn negatively impact our own business, financial condition and results of operations. 15The success of our franchising business depends upon our ability to attract and maintain qualified franchisees with sufficient financial resources to develop and grow their operations and upon the ability of those franchisees to successfully 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, may not operate their stores profitably and may not pay amounts due to us. As a result, our franchising operations may not be profitable. Moreover, our brand image and reputation may suffer. If franchisees perform below expectations, we may transfer those agreements to other parties, take over the operations directly or discontinue the franchise agreement. Furthermore, the interests of franchisees might sometimes conflict with our interests. For example, whereas franchisees are concerned with their individual business objectives, we are responsible for ensuring the success of the Build- A- Bear brand and all of our stores. In addition, we have recently terminated **our** franchise ~~agreements~~ - **agreement** covering **India** ~~Mexico, Thailand and Germany~~ resulting in the closure of all stores ~~in~~ **. A key growth initiative for our business is** ~~these~~ -- **the** ~~territories~~ **global expansion of our unique experience locations through international, third- party operated locations. At the end of fiscal 2023, we had one location open in Milan, Italy and additional locations expected to be opened in 2024 and beyond. The success of this strategy is dependent on our partners operating locations in a manner consistent with our standards and requirements, hiring and training qualified personnel, and operating the stores profitably so as to continue the relationship. We do not have direct control over our business partners and may not have visibility into their practices** . The laws of the various foreign countries in which our ~~franchisees~~ **partners** operate as well as compliance with U. S. laws affecting operations outside the U. S., such as the Foreign Corrupt Practices Act, govern our relationships with our ~~franchisees~~ **partners** . 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. LEGAL, TECHNOLOGY AND INTELLECTUAL PROPERTY RISKS We are subject to a number of risks related to disruptions, failures or security breaches of our information technology infrastructure. If we improperly obtain or are unable to protect our data or violate privacy or security laws or expectations, we could be subject to liability as well as damage to our reputation. Information technology is a critically important part of our business operations. We depend on information systems to process transactions, manage inventory, operate our websites, manage consumer databases, purchase, sell and ship goods on a timely basis, and maintain cost- efficient operations. There is a risk that we could experience a business interruption, theft of information, or reputational damage as a result of a cyber- attack, such as an infiltration of a data center, or data leakage of confidential information either internally or at our third- party providers. We may experience operational problems with our information systems as a result of system failures, system implementation issues, viruses, malicious hackers, sabotage, code anomalies, " Acts of God, " human error or other causes. Our business involves the storage and transmission of consumers' personal information, such as personal preferences and credit card information. We invest in industry- standard security technology to protect our data and business processes against the risk of data security breaches and cyber- attacks. Our data security management program includes identity, trust, vulnerability and threat management business processes, as well as enforcement of standard data protection policies such as Payment Card Industry compliance. We measure our data security effectiveness through industry accepted methods and remediate critical findings. Additionally, we certify our major technology suppliers and any outsourced services through accepted security certification measures. We maintain and routinely test backup systems and disaster recovery, along with external network security penetration testing by an independent third party as part of our business continuity preparedness. Internet privacy is a rapidly changing area and we may be subject to future requirements and legislation that are costly to implement and may negatively impact our results. While we believe that our security technology and processes are adequate in preventing security breaches and in reducing cyber security risks, given the ever-increasing abilities of those intent on breaching cyber security measures and given our reliance on the security and other efforts of third- party vendors, the total security effort at any point in time may not be completely effective, and any such security breaches and cyber incidents could adversely affect our business. Failure of our systems, including failures due to cyber- attacks that would prevent the ability of systems to function as intended, could cause transaction errors, loss of consumers and sales, and could have negative consequences to us, our employees, and those with whom we do business. In addition, ~~due to lingering affects of COVID,~~ our workforce **' s** ~~is in a state of transition to a~~ combination of remote work **, hybrid,** and flexible work schedules opening us up for cyber- security threats and potential breaches as a result of increased employee usage of networks other than company- managed. Any security breach involving the misappropriation, loss, or other unauthorized disclosure of confidential information could also severely damage our reputation, expose us to the risks of litigation and liability, and harm our business. While we carry insurance that would mitigate the losses to an extent, such insurance may be insufficient to compensate us for potentially significant losses. 16We currently obtain and retain personal information about our website users, store shoppers and loyalty program members. 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 regulation may also include enforcement and redress provisions. We have a stringent, comprehensive privacy policy covering the information we collect from our guests and have established security features to protect our consumer database and websites. While we have implemented programs and procedures designed to protect the privacy of people from whom we collect information which may include information regarding their children, and we intend for our websites to be fully compliant with all applicable regulations including the Federal Children' s Online Privacy Protection Act, there can be no assurance that such programs will conform to all applicable laws or regulations. If we fail to fully comply, we may be subjected to liability and damage to our reputation. In addition, because our guest database primarily includes personal information of the parents of children and children frequently interact with our websites, we are potentially vulnerable to charges from parents, children' s organizations, governmental entities, and the media of engaging in inappropriate collection, distribution or other use of data collected from children. Additionally, while we have security features, our security measures may not protect users' identities and our online safety measures may be questioned, which may result in negative publicity or a decrease in visitors to our sites. If site users act inappropriately or seek unauthorized contact with other users of the site, it could harm our reputation and, therefore, our business and we could be subject to liability. For example, the EU General Data Protection Regulation- 2016 / 679 (" EU GDPR ") and related guidance together with the UK General Data Protection Regulation (" UK GDPR," collectively with the EU GDPR, the" GDPR"), and the California Consumer Privacy Act 2018, as amended by the California Privacy Rights Act 2020 (collectively" CCPA"), greatly increase the jurisdictional reach of EU and California law, respectively, and adds a broad array of requirements related to personal data, including individual notice and opt-out preferences and the public disclosure of significant data breaches. Additionally, violations of GDPR can result in fines calculated as a percentage of a company' s annual revenue and CCPA provides civil penalty violations, as well as a private right of action for data breaches. Other governments have enacted or are expected to enact similar data protection laws and are considering data localization laws that require data to stay within their borders. All of these evolving compliance and operational requirements impose significant costs and regulatory risks that are likely to increase over time. A determination that there have been violations of laws relating to our practices under communications- based laws could also expose us to significant damage awards, fines and other penalties that could, individually or in the aggregate, materially harm our business. In particular, because of our marketing and other promotional texts, emails and other communications we send to our users, communications laws that provide a specified monetary damage award or fine for each violation (such as those described below) could result in particularly large awards or fines. For example, the Federal Communications Commission amended certain of its regulations under the Telephone Consumer Protection Act, or TCPA, in 2012 and 2013 in a manner that has increased our exposure to liability for certain types of telephonic communication with customers, including but not limited to text messages to mobile phones. Under the TCPA, plaintiffs seek actual monetary loss or statutory damages of $ 500 per violation, whichever is greater, and courts could treble the damage award for willful or knowing violations. Given the varied number of communications we send to our users, a determination that there have been violations of the TCPA, or other communications- based statutes, has exposed us to significant damage awards that could, individually or in the aggregate, materially harm our business. **In 2021,** ~~We are currently subject to~~ a ~~punitive~~ **putative** class action lawsuit ~~, containing allegations that our business violated~~ **was filed against us asserting claims under** the TCPA **which was ultimately dismissed after we reached a settlement with the plaintiff and an insurance carrier** . We may fail to renew, register or otherwise protect our trademarks or other intellectual property and ~~may be~~ **have been** sued by third parties for infringement or misappropriation of their proprietary rights, which could be costly, distract our management and personnel and result in the diminution in value of our trademarks and other important intellectual property. 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 be certain 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~~ **such** claims, even claims without merit, ~~could be~~ **have been** time- consuming, **and could** 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 was 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. 17We may suffer negative publicity or be sued if the manufacturers of our merchandise or of Build- A- Bear branded merchandise sold by our licensees ship any products that do not meet current safety standards or production requirements or if such products are recalled or cause injuries. Although we require our manufacturers to meet governmental safety standards, including food safety regulations for certain locations, and our product specifications as well as submitting our products for testing, we cannot fully control the materials used by, or the workmanship of, our manufacturers. Additionally, through our agreements, our licensees are required to ensure that their manufacturers meet applicable safety and testing standards. If any of these manufacturers ship merchandise that does not meet our required standards, 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 if age grading or warnings are not followed. We may decide or be required to recall products or be subject to claims or lawsuits resulting from injuries. For example, we have voluntarily recalled six products in the past ten years due to possible safety issues. While our vendors have historically 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. Additionally, we could incur fines related to consumer product safety issues from the regulatory authorities in the countries in which we operate. Although we currently have liability insurance, we cannot assure you that it would cover product recalls or related fines, 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. While our licensing agreements typically indemnify us against financial losses resulting from a safety or quality issue from Build- A- Bear branded products sold by our licensees, such indemnification may not fully protect us financially and, whether or not it does, our brand reputation may be negatively impacted. We may suffer negative publicity or be sued if the manufacturers of our merchandise violate labor laws or engage in practices that consumers believe are unethical. 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 U. S., we could in turn experience negative publicity, reputational harm, increased compliance and operating costs or be sued. We may suffer negative publicity or a decrease in sales or profitability if the products from other companies that we sell in our stores do not meet our quality standards or fail to achieve our sales expectations. We may expand our product assortment to include products manufactured by other companies. If sales of such products do not meet our expectations or are impacted by competitors' pricing, we may have to take markdowns or employ other strategies to liquidate the product. If other companies do not meet quality or safety standards or violate any manufacturing or labor laws, we may suffer negative publicity and may not realize our sales plans. We may suffer negative publicity and damage to our reputation if we do not continue to evolve environmental, social, and governance initiatives in a timely manner. The appeal of our brand may also depend on the success of our environmental, social and governance (" ESG") initiatives, which require company- wide coordination and alignment. We are working to manage risks and costs to us, our licensees and our supply chain that are exposed to the effects of climate change as well as diminishing fossil fuel and water resources. These risks include any increased public focus, including by governmental and non- governmental organizations, on climate change and other environmental sustainability matters, including packaging and waste, emissions, and land use. We may receive increased pressure to publish an ESG report or otherwise expand our disclosures in these areas, make commitments, set targets or establish additional goals and take actions to meet them, which could expose us to market, operational and execution costs or risks. If we publish an ESG report or otherwise expand our ESG disclosures, the metrics we disclose whether they be based on the standards we set for ourselves or those set by others, may influence our reputation and the value of our brand. Our failure to **accurately track or to** achieve progress on any goals or objectives that we set on a timely basis, or at all, could adversely affect our business, financial performance, and growth. By electing to publicly set and share these metrics and expand upon our disclosures, we would also face increased scrutiny related to ESG activities. As a result, we could experience damage to our reputation and the value of our brands if we fail to act responsibly in the areas in which we report. Any such harm to our reputation or any failure or perceived failure by us to adequately address ESG- related activities, including setting of metrics or enhancing disclosures, could adversely affect our business, financial performance, and growth. 18Risks Related to Owning Our Common Stock 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 profitability of our stores; • increases or decreases in total revenues; • changes in general economic conditions and consumer spending patterns; • the timing and frequency of our marketing initiatives; • changes in foreign currency exchange rates; • seasonal shopping patterns; • the timing of store closures, relocations and openings and related expenses; • the effectiveness of our inventory management; • changes in consumer preferences; • the continued introduction and expansion of merchandise offerings including those associated with major motion pictures; • actions of competitors or mall anchors and co- tenants; • weather conditions and natural disasters; • public health issues such as ~~COVID~~ **pandemics** , and associated impacts on store openings and store operations • the timing and frequency of national media appearances and other public relations events; and • the impact of a 53rd week in our fiscal year, which occurs approximately every six years, (e. g., ~~next to occur~~ **occurred** in fiscal 2023). If our future quarterly results fluctuate significantly or fail to meet the expectations of the investment community, then the market price of our common stock could decline substantially. Fluctuations in our operating results could reduce our cash flow, or trigger restrictions under our credit agreement, ~~and we may~~ **cause use to** be unable to repurchase shares at all ~~or~~ **,** at the times or in the amounts we desire, ~~or~~ **cause** the results of our share repurchase program may not be as beneficial as we would like **, or cause us to discontinue our quarterly**

dividend program . From time to time, we have repurchased shares under plans authorized by our Board of Directors, including a $ 50 million program adopted in August 2022. Such programs generally do not require us to repurchase any specific number of shares, and may be modified, suspended or terminated at any time without prior notice. Shares repurchased under the program will be subsequently retired. If our cash flow decreases as a result of decreased sales, increased expenses or capital expenditures or other uses of cash, we may not be able to repurchase shares of our common stock at all or at times or in the amounts we desire. As a result, the results of any share repurchase program may not be as beneficial as expected. **Additionally** ~~In addition~~ , ~~our~~ **cash flow decreases could cause us to discontinue the recently announced Board of Director approved quarterly dividend program. Our** credit agreement restricts our ability to repurchase shares **and issue dividends** when certain liquidity conditions exist. 19Our relatively low market capitalization can cause the market price of our common stock to become volatile. During fiscal ~~2022~~ **2023** , the trading price of our common stock fluctuated between $ ~~12~~ **17** . ~~47~~ **85** and $ ~~26~~ **30** . ~~87~~ **49** per share. The market price of our common stock may be significantly affected by a number of factors, including, but not limited to, actual or anticipated variations in our operating results or those of our competitors as compared to analyst expectations, changes in financial estimates by research analysts with respect to us or others in the retail industry, and announcements of significant transactions (including mergers or acquisitions, divestitures, joint ventures, stock repurchases, dividends, or other strategic initiatives) by us or other similar companies. In addition, the equity markets have experienced price and volume fluctuations that affect the stock price of companies in ways that have been unrelated to an individual company' s operating performance. The price of our common stock may continue to be volatile, based on factors specific to our company and industry, as well as factors related to the equity markets overall. Moreover, we believe that such volatility has attracted the interest of activist shareholders in the past and may continue to do so. Responding to activist shareholders can be costly and time- consuming, and the perceived uncertainties as to our future direction resulting from responding to activist strategies could itself then further affect the market price and volatility of our common stock. 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. GENERAL RISKS 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 the quality of associates throughout our organization and our ability to attract and retain qualified key employees. The loss of certain key employees, **change in management for strategic purposes,** our inability to attract and retain other qualified key employees or a labor shortage that reduces the pool of qualified candidates could have a material adverse effect on our business, financial condition and results of operations **. Impacts resulting from turnover of key management personal or a named executive officer, such as the termination of our Chief Digital and Merchandising Officer as of February 3, 2024, could materially harm our business or operating strategies** . 20We may be unsuccessful in acquiring businesses or engaging in other strategic transactions, which may negatively affect our financial condition and profitability. We may from time to time engage in discussions and negotiations regarding acquisitions or other strategic transactions that could affect our financial condition, profitability or other aspects of our business. There can be no assurance that we will be able to identify suitable acquisition targets that we believe complement our existing business. There can also be no assurance that if we acquire a business, we will be successful in integrating it into our overall operations, or that any such acquired company will operate profitably or will not otherwise adversely impact our financial condition. ITEM 1B. UNRESOLVED STAFF COMMENTS