CADENCE DESIGN SYSTEMS INC
Form 10-Q
October 30, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended October 3, 2009

OR

o **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 0-15867

CADENCE DESIGN SYSTEMS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**77-0148231**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2655 Seely Avenue, Building 5, San Jose, California	**95134**
(Address of Principal Executive Offices)	(Zip Code)

(408) 943-1234
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 X No __

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

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

Large accelerated filer [X] Accelerated filer [__] Non-accelerated filer [__] Smaller reporting company [__]
(Do not check if a smaller reporting company)

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

On October 3, 2009, 268,769,321 shares of the registrant s common stock, $0.01 par value, were outstanding.

CADENCE DESIGN SYSTEMS, INC.
INDEX

		Page
PART I.	**FINANCIAL INFORMATION**	
Item 1.	Financial Statements:	
	Condensed Consolidated Balance Sheets: October 3, 2009 and January 3, 2009	1
	Condensed Consolidated Statements of Operations: Three and Nine Months Ended October 3, 2009 and September 27, 2008	2
	Condensed Consolidated Statements of Cash Flows: Three and Nine Months Ended October 3, 2009 and September 27, 2008	3
	Notes to Condensed Consolidated Financial Statements	4
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	47
Item 4.	Controls and Procedures	49
PART II.	**OTHER INFORMATION**	
Item 1.	Legal Proceedings	51
Item 1A.	Risk Factors	53
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	67
Item 3.	Defaults Upon Senior Securities	67
Item 4.	Submission of Matters to a Vote of Security Holders	67
Item 5.	Other Information	67
Item 6.	Exhibits	67
	Signatures	68

EX-31.01
EX-31.02
EX-32.01

EX-32.02

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CADENCE DESIGN SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

ASSETS

	October 3, 2009	January 3, 2009 As Adjusted (Note 2)
Current Assets:		
Cash and cash equivalents	$ 570,617	$ 568,255
Short-term investments	4,756	3,840
Receivables, net of allowances of $15,208 and $7,524, respectively	195,468	298,665
Inventories	25,626	28,465
Prepaid expenses and other	64,694	54,765
Total current assets	861,161	953,990
Property, plant and equipment, net of accumulated depreciation of $630,155 and $625,010, respectively	313,398	354,852
Acquired intangibles, net of accumulated amortization of $122,677 and $134,688, respectively	33,438	49,082
Installment contract receivables, net of allowances of $9,724 and $0, respectively	64,859	160,742
Other assets	141,361	161,187
Total Assets	$ 1,414,217	$ 1,679,853

LIABILITIES AND STOCKHOLDERS EQUITY

Current Liabilities:		
Accounts payable and accrued liabilities	$ 159,728	$ 261,099
Current portion of deferred revenue	245,528	303,111
Total current liabilities	405,256	564,210
Long-Term Liabilities:		
Long-term portion of deferred revenue	108,941	130,354
Convertible notes	431,072	416,572
Other long-term liabilities	372,756	382,004

Total long-term liabilities	912,769	928,930
Contingencies (Notes 7 and 11)		
Stockholders Equity:		
Common stock and capital in excess of par value	1,664,029	1,659,302
Treasury stock, at cost	(433,505)	(695,152)
Accumulated deficit	(1,175,535)	(814,679)
Accumulated other comprehensive income	41,203	37,242
Total stockholders equity	96,192	186,713
Total Liabilities and Stockholders Equity	$ 1,414,217	$ 1,679,853

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

CADENCE DESIGN SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008 As Adjusted (Note 2)	October 3, 2009	September 27, 2008 As Adjusted (Note 2)
Revenue:				
Product	$ 96,932	$ 107,572	$ 286,295	$ 422,365
Services	26,669	32,873	83,684	98,763
Maintenance	92,521	92,043	262,374	290,151
Total revenue	216,122	232,488	632,353	811,279
Costs and Expenses:				
Cost of product	6,405	11,829	23,828	39,241
Cost of services	21,139	25,677	69,602	78,083
Cost of maintenance	11,105	13,910	35,423	42,889
Marketing and sales	68,282	91,075	214,603	274,016
Research and development	88,049	112,486	273,394	357,929
General and administrative	28,732	32,937	101,311	105,608
Amortization of acquired intangibles	2,726	5,626	8,694	17,206
Restructuring and other charges (credits)	(175)	48,120	17,833	47,765
Write-off of acquired in-process technology	----	----	----	600
Total costs and expenses	226,263	341,660	744,688	963,337
Loss from operations	(10,141)	(109,172)	(112,335)	(152,058)
Interest expense	(7,278)	(7,042)	(21,592)	(20,696)
Other income (expense), net	2,917	(7,714)	(5,765)	(3,701)
Loss before provision (benefit) for income taxes	(14,502)	(123,928)	(139,692)	(176,455)
Provision (benefit) for income taxes	(455)	46,728	11,969	46,155
Net loss (loss)	$ (14,047)	$ (170,656)	$ (151,661)	$ (222,610)
Basic and diluted net loss per share	$ (0.05)	$ (0.67)	$ (0.59)	$ (0.87)
Weighted average common shares outstanding basic and diluted	259,193	252,915	256,792	256,119

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

CADENCE DESIGN SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended	
	October 3, 2009	September 27, 2008 As Adjusted (Note 2)
Cash and Cash Equivalents at Beginning of Period	$ 568,255	$ 1,062,920
Cash Flows from Operating Activities:		
Net loss	(151,661)	(222,610)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	71,334	96,037
Amortization of debt discount and fees	15,557	13,323
Stock-based compensation	43,690	57,678
Equity in loss from investments, net	369	823
Loss on investments, net	4,307	11,440
(Gain) loss on sale and leaseback of land and buildings	(122)	350
Write-down of investment securities	5,207	10,666
Write-off of acquired in-process technology	----	600
Tax benefit of call options	----	2,994
Impairment of property, plant and equipment	6,603	2,004
Deferred income taxes	(6,520)	(11,094)
Proceeds from the sale of receivables, net	5,827	48,124
Provisions for losses on trade and installment contract receivables and sales returns	18,668	462
Other non-cash items	(3,962)	(3,119)
Changes in operating assets and liabilities, net of effect of acquired businesses:		
Receivables	56,444	21,489
Installment contract receivables	122,302	46,198
Inventories	2,846	5,486
Prepaid expenses and other	(4,041)	(3,421)
Other assets	11,809	(1,849)
Accounts payable and accrued liabilities	(79,395)	(41,582)
Deferred revenue	(83,760)	(32,243)
Other long-term liabilities	(10,773)	35,972
Net cash provided by operating activities	24,729	37,728
Cash Flows from Investing Activities:		
Proceeds from the sale of available-for-sale investments	139	53,783
Purchases of available-for-sale investments	----	(62,447)
Proceeds from the sale of long-term investments	----	3,250
Purchases of property, plant and equipment	(30,504)	(81,112)

Purchases of software licenses	(774)	(1,199)
Investment in venture capital partnerships and equity investments	(2,300)	(4,053)
Cash paid in business combinations and asset acquisitions, net of cash acquired, and acquisition of intangibles	(14,126)	(20,621)
Net cash used for investing activities	(47,565)	(112,399)
Cash Flows from Financing Activities:		
Proceeds from receivable sale financing	----	17,970
Principal payments on receivable sale financing	(2,467)	----
Payment of convertible notes due 2023	----	(230,207)
Tax benefit from employee stock transactions	----	427
Proceeds from issuance of common stock	27,862	48,116
Stock received for payment of employee taxes on vesting of restricted stock	(4,055)	(3,693)
Purchases of treasury stock	----	(273,950)
Net cash provided by (used for) financing activities	21,340	(441,337)
Effect of exchange rate changes on cash and cash equivalents	3,858	4,841
Increase (decrease) in cash and cash equivalents	2,362	(511,167)
Cash and Cash Equivalents at End of Period	$ 570,617	$ 551,753

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

CADENCE DESIGN SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q have been prepared by Cadence Design Systems, Inc., or Cadence, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, Cadence believes that the disclosures contained in this Quarterly Report on Form 10-Q comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These Condensed Consolidated Financial Statements are meant to be, and should be, read in conjunction with the Consolidated Financial Statements and the Notes thereto included in Cadence s Annual Report on Form 10-K for the fiscal year ended January 3, 2009.

The unaudited Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q reflect all adjustments (which include only normal, recurring adjustments and those items discussed in these Notes) that are, in the opinion of management, necessary to state fairly the results for the periods presented. The results for such periods are not necessarily indicative of the results to be expected for the full fiscal year.

Preparation of the Condensed Consolidated Financial Statements in conformity with Generally Accepted Accounting Principles, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

Cadence adopted Statement of Financial Accounting Standard, or SFAS, No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 during the three months ended October 3, 2009. SFAS No. 168 replaces the GAAP hierarchy with two levels: authoritative and nonauthoritative. The FASB Accounting Standards Codification, or Codification, became the single source of authoritative nongovernmental GAAP, except for rules and interpretive releases of the SEC. All nongrandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed nonauthoritative. Cadence has updated the Notes below to reflect the Codification and eliminated all prior references to nongrandfathered, and now nonauthoritative, accounting literature.

Cadence adopted new accounting principles for its 1.375% Convertible Senior Notes Due 2011, or the 2011 Notes, and 1.500% Convertible Senior Notes Due 2013, or the 2013 Notes, and collectively with the 2011 Notes, the Convertible Senior Notes, on the first day of fiscal 2009. See Note 2 for additional information and disclosures regarding this adoption.

Cadence adopted new accounting principles for all non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis on the first day of fiscal 2009. This adoption did not have a material impact on Cadence s consolidated financial position, results of operations or cash flows. See Note 4 for additional disclosures as a result of this adoption.

During the three months ended July 4, 2009, Cadence initially adopted new accounting principles that modified the definition of what qualifies as a subsequent event   those events or transactions that occur following the balance sheet date, but before the financial statements are issued, or are available to be issued   and requires companies to disclose the date through which it has evaluated subsequent events and the basis for determining that date. Cadence evaluated subsequent events through October 30, 2009, the date on which this Quarterly Report on Form 10-Q was filed with the SEC.

Table of Contents

Cadence initially adopted the following three related new accounting principles during the three months ended July 4, 2009:

- The modifications to the measurement of other-than-temporary impairments for debt securities and to the presentation and frequency of related disclosures;
- The requirement for disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements; and
- Additional guidance for estimating fair value when the volume and level of activity for an asset or a liability have significantly decreased and identifying transactions that are not orderly.

The adoption of these three updates to GAAP did not have a material impact on Cadence s consolidated financial position, results of operations or cash flows.

NOTE 2. CONVERTIBLE NOTES

1.375% Convertible Senior Notes Due 2011 and 1.500% Convertible Senior Notes Due 2013

In December 2006, Cadence issued $250.0 million principal amount of the 2011 Notes, and $250.0 million of the 2013 Notes. The indentures for the Convertible Senior Notes do not contain any financial covenants. Cadence received net proceeds of approximately $487.2 million after issuance costs of approximately $12.8 million, including $12.0 million of underwriting discounts. Contractual interest payable on the Convertible Senior Notes began accruing in December 2006 and is payable semi-annually each December 15th and June 15th.

Holders may convert their Convertible Senior Notes prior to maturity upon the occurrence of one of the following events:

- The price of Cadence s common stock reaches $27.50 during certain periods of time specified in the Convertible Senior Notes;
- Specified corporate transactions occur; or
- The trading price of the Convertible Senior Notes falls below 98% of the product of (i) the last reported sale price of Cadence s common stock and (ii) the conversion rate on that date.

From November 2, 2011, in the case of the 2011 Notes, and November 1, 2013, in the case of the 2013 Notes, and until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert their Convertible Senior Notes at any time, regardless of the foregoing circumstances. Cadence may not redeem the Convertible Senior Notes prior to maturity.

The initial conversion rate for the Convertible Senior Notes is 47.2813 shares of Cadence common stock per $1,000 principal amount of Convertible Senior Notes, equivalent to a conversion price of approximately $21.15 per share of Cadence common stock. Upon conversion, a holder will receive the sum of the daily settlement amounts, calculated on a proportionate basis for each day, during a specified observation period following the conversion date. The daily settlement amount during each date of the observation period consists of:

- Cash up to the principal amount of the note; and
- Cadence s common stock to the extent that the conversion value exceeds the amount of cash paid upon conversion of the Convertible Senior Notes.

In addition, if a fundamental change occurs prior to maturity and provided that Cadence s stock price is greater than $18.00 per share, the conversion rate will increase by an additional amount of up to $8.27 per share, for a holder that

elects to convert its Convertible Senior Notes in connection with such fundamental change, which amount will be paid entirely in cash. A fundamental change is any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) in which more than 50% of Cadence s common stock is exchanged for, converted into, acquired for or constitutes

solely the right to receive, consideration. No fundamental change will have occurred if at least 90% of the consideration received consists of shares of common stock, or depositary receipts representing such shares, that are:

- Listed on, or immediately after the transaction or event will be listed on, a United States national securities exchange; or
- Approved, or immediately after the transaction or event will be approved, for quotation on a United States system of automated dissemination of quotations of securities prices similar to the NASDAQ National Market prior to its designation as a national securities exchange.

As of October 3, 2009, none of the conditions allowing the holders of the Convertible Senior Notes to convert had been met.

Concurrently with the issuance of the Convertible Senior Notes, Cadence entered into hedge transactions with various parties whereby Cadence has the option to purchase up to 23.6 million shares of Cadence s common stock at a price of $21.15 per share, subject to adjustment. These options expire on December 15, 2011, in the case of the 2011 Notes, and December 15, 2013, in the case of the 2013 Notes, and must be settled in net shares. The aggregate cost of these hedge transactions was $119.8 million and has been recorded as a reduction to Stockholders equity. The estimated fair value of the hedges acquired in connection with the issuance of the Convertible Senior Notes was $9.3 million as of October 3, 2009. Subsequent changes in the fair value of these hedges will not be recognized in Cadence s Condensed Consolidated Financial Statements as long as the instruments remain classified as equity.

In separate transactions, Cadence also sold warrants to various parties for the purchase of up to 23.6 million shares of Cadence s common stock at a price of $31.50 per share in a private placement pursuant to Section 4(2) of the Securities Act of 1933, as amended, or the Securities Act. The warrants expire on various dates from February 2012 through April 2012 in the case of the 2011 Notes, and February 2014 through April 2014 in the case of the 2013 Notes, and must be settled in net shares. Cadence received $39.4 million in cash proceeds from the sale of these warrants, which has been recorded as an increase in Stockholders equity. The estimated fair value of the warrants sold in connection with the issuance of the Convertible Senior Notes was $4.9 million as of October 3, 2009. Subsequent changes in the fair value of these warrants will not be recognized in Cadence s Condensed Consolidated Financial Statements as long as the instruments remain classified as equity. The warrants will be included in diluted earnings per share to the extent the impact is considered dilutive.

Zero Coupon Zero Yield Senior Convertible Notes Due 2023

In August 2003, Cadence issued $420.0 million principal amount of Zero Coupon Zero Yield Senior Convertible Notes Due 2023, or the 2023 Notes. Cadence received net proceeds of $406.4 million after issuance costs of $13.6 million that were recorded in Other long-term assets and were amortized as interest expense using the straight-line method over five years. In connection with the issuance of the Convertible Senior Notes in December 2006, Cadence repurchased $189.6 million principal amount of the 2023 Notes, and in August 2008, Cadence repurchased $230.2 million principal amount of the 2023 Notes upon the election of the holders of the 2023 Notes and pursuant to the terms of the 2023 Notes, for a total consideration of $230.8 million, reducing the balance of the outstanding 2023 Notes to $0.2 million. As of October 3, 2009, the total fair value of the outstanding 2023 Notes was $0.1 million.

Adoption of New Accounting Principles

Cadence adopted new accounting principles for its Convertible Senior Notes on the first day of fiscal 2009. These new accounting principles require issuers of certain types of convertible notes to separately account for the liability and equity components of such convertible notes in a manner that reflects the entity s nonconvertible debt borrowing rate

when interest cost is recognized in subsequent periods. These new accounting principles apply to the Convertible Senior Notes, but they do not apply to the 2023 Notes. Prior to this adoption, the liability of the Convertible Senior Notes was carried at its principal value and only the contractual interest expense was recognized in Cadence s Condensed Consolidated Statements of Operations. Because these new accounting principles require retrospective adoption, Cadence was required to adjust all periods for which the Convertible Senior Notes were outstanding before the date of adoption.

Upon adoption of these new accounting principles and effective as of the issuance date of the Convertible Senior Notes, Cadence recorded $120.1 million of the principal amount to equity, representing a debt discount for the difference between Cadence s estimated nonconvertible debt borrowing rate of 6.3% at the time of issuance and the coupon rate of the Convertible Senior Notes. This debt discount is amortized as interest expense over the contractual terms of the 2011 Notes and the 2013 Notes, respectively, using the effective interest method. In addition, Cadence allocated $3.1 million of the issuance costs to the equity component of the Convertible Senior Notes and the remaining $9.7 million of the issuance costs to the debt component of the Convertible Senior Notes. The issuance costs were allocated pro rata based on their initial carrying amounts. The $9.7 million of debt issuance costs allocated to the debt component is amortized as interest expense over the respective contractual terms of the Convertible Senior Notes using the effective interest method.

The carrying amount of the equity component of the Convertible Senior Notes and the principal amount, unamortized discount and net carrying amount of the liability component of the Convertible Senior Notes as of October 3, 2009 and January 3, 2009 were as follows:

	As of	
	October 3, 2009	January 3, 2009 As Adjusted
	(In thousands)	
Equity component of Convertible Senior Notes	$ 116,993	$ 116,993
Principal amount of Convertible Senior Notes	$ 500,000	$ 500,000
Unamortized discount of Convertible Senior Notes	(69,106)	(83,606)
Liability component of Convertible Senior Notes	$ 430,894	$ 416,394

The effective interest rate, contractual interest expense, amortization of debt discount and capitalized interest associated with the amortization of debt discount for the Convertible Senior Notes for the three and nine months ended October 3, 2009 and June 28, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008 As Adjusted	October 3, 2009	September 27, 2008 As Adjusted
	(In thousands, except percentages)			
Effective interest rate	6.3%	6.3%	6.3%	6.3%
Contractual interest expense	$ 1,791	$ 1,791	$ 5,373	$ 5,373
Amortization of debt discount	$ 4,902	$ 4,605	$ 14,503	$ 13,553
Capitalized interest associated with the amortization of debt discount	$ (65)	$ (581)	$ (269)	$ (1,369)

As of October 3, 2009, the if-converted value of the Convertible Senior Notes does not exceed the principal amount of the Convertible Senior Notes and the total fair value of the Convertible Senior Notes was $425.7 million.

Table of Contents

Cadence s retrospective adoption of the new accounting principles for its Convertible Senior Notes resulted in the following adjustments to Cadence s Condensed Consolidated Balance Sheet as of January 3, 2009:

	As of January 3, 2009		
	As Previously Reported	Adjustments	As Adjusted
	(In thousands)		
Current assets	$ 954,548	$ (558)(A)	$ 953,990
Property, plant and equipment, net	351,961	2,891(B)	354,852
Acquired intangibles, net	49,082	----	49,082
Installment contract receivables	160,742	----	160,742
Other assets	162,381	(1,194)(C)	161,187
Total Assets	$ 1,678,714	$ 1,139	$ 1,679,853
Current liabilities	$ 564,210	$ ----	$ 564,210
Long-Term Liabilities:			
Long-term portion of deferred revenue	130,354	----	130,354
Convertible notes	500,178	(83,606)(D)	416,572
Other long-term liabilities	382,004	----	382,004
Total long-term liabilities	1,012,536	(83,606)	928,930
Stockholders Equity:			
Common stock and capital in excess of par value	1,562,079	97,223(E)	1,659,302
Treasury stock, at cost	(695,152)	----	(695,152)
Accumulated deficit	(802,201)	(12,478)(F)	(814,679)
Accumulated other comprehensive income	37,242	----	37,242
Total stockholders equity	101,968	84,745	186,713
Total Liabilities and Stockholders Equity	$ 1,678,714	$ 1,139	$ 1,679,853

Cadence s retrospective adoption of the new accounting principles for its Convertible Senior Notes resulted in the following adjustments to Cadence s Condensed Consolidated Statement of Operations for the three and nine months ended September 27, 2008:

	Three Months Ended September 27, 2008		
	As Previously Reported	Adjustments	As Adjusted
	(In thousands, except per share amounts)		
Revenue	$ 232,488	$ ----	$ 232,488
Costs and expenses	341,660	----	341,660

Loss from operations		(109,172)		----		(109,172)
Interest expense		(3,180)		(3,862)(G)		(7,042)
Other income (expense), net		(7,714)		----		(7,714)
Loss before provision for income taxes		(120,066)		(3,862)		(123,928)
Provision for income taxes		49,000		(2,272)(H)		46,728
Net loss	$	(169,066)	$	(1,590)	$	(170,656)
Basic net loss per share	$	(0.67)			$	(0.67)
Diluted net loss per share	$	(0.67)			$	(0.67)

	Nine Months Ended September 27, 2008		
	As Previously Reported	Adjustments	As Adjusted
	(In thousands, except per share amounts)		
Revenue	$ 811,279	$ ----	$ 811,279
Costs and expenses	963,337	----	963,337
Loss from operations	(152,058)	----	(152,058)
Interest expense	(9,055)	(11,641)(G)	(20,696)
Other income (expense), net	(3,701)	----	(3,701)
Loss before provision (benefit) for income taxes	(164,814)	(11,641)	(176,455)
Provision for income taxes	50,269	(4,114)(H)	46,155
Net loss	$ (215,083)	$ (7,527)	$ (222,610)
Basic net loss per share	$ (0.84)		$ (0.87)
Diluted net loss per share	$ (0.84)		$ (0.87)

(A) This amount represents the cumulative adjustments to the current portion of debt issuance costs associated with the Convertible Senior Notes.

(B) This amount represents the cumulative capitalized interest related to the amortization of debt discount.

(C) This amount represents the cumulative adjustments to the long-term portion of debt issuance costs associated with the Convertible Senior Notes and the cumulative impact on the net deferred tax assets related to the amortization of debt discount.

(D) This amount represents the remaining unamortized debt discount on the Convertible Senior Notes as of January 3, 2009.

(E) This amount represents the equity component of the Convertible Senior Notes, net of tax adjustments to the tax benefit of call options, due to the amortization of debt discount.

(F) This amount represents the cumulative Net loss impact of the amortization of debt discount and the associated tax adjustments since inception of the Convertible Senior Notes.

(G) This amount represents the amortization of debt discount, net of the decrease in interest expense associated with the debt issuance costs.

(H) This amount represents the tax adjustments associated with the increased expense during the period.

Cadence s retrospective adoption does not affect the balance of Cash and cash equivalents and as a result did not change its Net cash flows from operating, investing or financing activities in its Condensed Consolidated Statement of Cash Flows for the nine months ended September 27, 2008.

Table of Contents

Cadence s retrospective adoption of the new accounting principles for its Convertible Senior Notes resulted in the following adjustments to Cadence s Statements of Stockholders Equity:

	Common Stock and Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)
	(In thousands)	
Balance, December 30, 2006, as reported	$ 1,398,899	$ 832,763
Equity component of Convertible Senior Notes	120,073	----
Equity component of debt issuance costs	(3,080)	----
Amortization of debt discount, net of capitalized interest	----	(527)
Amortization of debt issuance costs, net of reversal of previously recorded amortization of debt issuance costs	----	(44)
Tax adjustments	(7,634)	234
Balance, December 30, 2006, as adjusted	$ 1,508,258	$ 832,426
Fiscal 2007 equity activity as previously reported	117,594	329,678
Amortization of debt discount, net of capitalized interest	----	(16,589)
Amortization of debt issuance costs, net of reversal of previously recorded amortization of debt issuance costs	----	703
Tax adjustments	(5,976)	6,422
Balance, December 29, 2007, as adjusted	$ 1,619,876	$ 1,152,640
Fiscal 2008 equity activity as previously reported	45,586	(1,964,642)
Amortization of debt discount, net of capitalized interest	----	(16,460)
Amortization of debt issuance costs, net of reversal of previously recorded amortization of debt issuance costs	----	672
Tax adjustments	(6,160)	13,111
Balance, January 3, 2009, as adjusted	$ 1,659,302	$ (814,679)

Upon adoption of these new accounting principles and effective as of the issuance date of the Convertible Senior Notes, Cadence recorded, as adjustments to Common stock and capital in excess of par value, deferred taxes for the differences in the financial statement and tax basis that resulted from allocating $120.1 million of the principal amount of the Convertible Senior Notes to equity and from allocating $3.1 million of the associated issuance costs to equity. In subsequent periods, Cadence reduced the deferred taxes to reflect the tax effect of the amortization of debt discount, net of capitalized interest, and of the debt issuance costs. Cadence also recorded tax adjustments to reverse previously recorded tax benefits from the Convertible Senior Notes to Common stock and capital in excess of par value and to Retained earnings (Accumulated deficit).

NOTE 3. STOCK-BASED COMPENSATION

Cadence has equity incentive plans that provide for the grant to employees of stock options and restricted stock. Restricted stock includes restricted stock awards and restricted stock units. In addition, the 1995 Directors Stock

Option Plan, or the 1995 Directors Plan, provides for the automatic grant of stock options to non-employee members of Cadence s Board of Directors. Cadence also has an employee stock purchase plan, or ESPP, which enables employees to purchase shares of Cadence common stock.

Stock-based compensation expense and the related income tax benefit recognized in connection with stock options, restricted stock and the ESPP for the three and nine months ended October 3, 2009 and September 27, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
	(In thousands)			
Stock options	$ 2,508	$ 5,809	$ 8,359	$ 20,036
Restricted stock and stock bonuses	8,654	4,955	27,296	27,007
ESPP	3,293	3,870	8,035	10,635
Total stock-based compensation expense	$ 14,455	$ 14,634	$ 43,690	$ 57,678
Income tax benefit	$ 400	$ 3,533	$ 1,271	$ 15,036

Stock Options

The exercise price of each stock option granted under Cadence s employee equity incentive plans is equal to or greater than the closing price of Cadence s common stock on the date of grant. Generally, option grants vest over four years, expire no later than ten years from the grant date and are subject to the employee s continuing service to Cadence. The options granted under the 1995 Directors Plan vest one year from the date of grant. Options assumed in connection with acquisitions generally have exercise prices that differ from the fair value of Cadence s common stock on the date of acquisition and such options generally continue to vest under their original vesting schedules and expire on the original dates stated in the acquired company s option agreements. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average grant date fair value of options granted and the weighted average assumptions used in the Black-Scholes option pricing model for the three and nine months ended October 3, 2009 and September 27, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Dividend yield	None	N/A	None	None
Expected volatility	54.1%	N/A	65.9%	42.9%
Risk-free interest rate	2.22%	N/A	1.90%	2.76%
Expected life (in years)	4.5	N/A	4.5	4.5
Weighted average fair value of options granted	$ 3.10	N/A	$ 2.32	$ 4.22

The computation of the expected volatility assumption used in the Black-Scholes option pricing model for new grants is based on implied volatility when the remaining maturities of the underlying traded options are at least one year and, when the remaining maturities of the underlying traded options are less than one year, it is based on an equal weighting of historical and implied volatilities. When establishing the expected life assumption, Cadence reviews

annual historical employee exercise behavior with respect to option grants having similar vesting periods. The risk-free interest rate for the period within the expected term of the option is based on the yield of United States Treasury notes in effect at the time of grant. Cadence has not historically paid dividends, so the expected dividend yield used in the calculation is zero.

Restricted Stock and Stock Bonuses

401(k) Mirror Plan

The Company sponsors the Build-A-Bear Workshop, Inc. Non-Qualified Deferred Compensation Plan, a non-qualified plan which mirrors the substantive terms of the Build-A-Bear Workshop, Inc. Employee Savings Trust. The non-qualified plan permits certain highly compensated employees, including the Named Executive Officers, whose deferrals are otherwise limited to the qualified plan, to make additional pre-tax deferrals of compensation. The Company may make matching contributions to this non-qualified plan to replicate Company matching contributions that would have been made to the qualified plan, but for limitations in the Internal Revenue Code. In 2011, the Company matched 25% of the participants 2010 contributions of up to 6% of the

Table of Contents

participant s salary, divided between the 401(k) plan and the 401(k) mirror plan. The Company matching contribution is not fully vested until the participant has been employed by the Company for five years. Of the Named Executive Officers, only Mses. Klocke and Kroll and Mr. Finnegan participate in this plan.

Federal Income Tax and Accounting Considerations

Section 162(m)

The policy of the Committee is to establish and maintain a compensation program that maximizes long-term stockholder value. The Committee believes executive compensation programs should serve to achieve that objective, while also minimizing any effect of Section 162(m) of the Internal Revenue Code. Generally, Section 162(m) provides for an annual $1 million limitation on the deduction an employer may claim for compensation of executive officers unless it is performance-based. The stock options and the performance-based restricted stock issued to senior executives and managers as part of the Company s long-term incentive program qualify as performance-based compensation as defined in Section 162(m) because the Stock Incentive Plan, approved by stockholders, complies with the provisions of Section 162(m). The 2011 Bonus Plan of the Company providing cash bonuses to executives pursuant to the Stock Incentive Plan is performance-based and has previously been approved by our stockholders. Accordingly, the stock options, performance-based restricted stock and cash bonuses under such incentive plans will not be included in applying the $1 million limitation. To maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the Committee has adopted a policy that all compensation will not necessarily be deductible for income tax purposes. For example, salary and time-based restricted stock grants are not considered performance-based for the purpose of Section 162(m).

Accounting Considerations

The Committee has taken certain accounting rules and consequences into consideration when determining the type of equity awards that executive officers should receive as part of the Company s long-term incentive plan component of compensation packages. The vesting of restricted stock and stock option grants made to the Company s executive officers and employees and the associated Financial Accounting Standards Board s Accounting Standards Codification Topic 718 (FASB ASC Topic 718) expense recognition is tied to the passage of time rather than conditioned upon fulfillment of certain performance targets.

COMPENSATION AND DEVELOPMENT COMMITTEE REPORT

The Company s Compensation and Development Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Committee recommended to the Company s Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Submitted by the Compensation and Development Committee of the Board of Directors:

Coleman Peterson, Chairman

Mary Lou Fiala

James M. Gould

Virginia Kent

William Reisler

The Compensation and Development Committee Report and the Report of the Audit Committee below will not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement or portions thereof into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates this information by reference, and will not otherwise be deemed filed under such Acts.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2011 the Compensation Committee was comprised of Coleman Peterson (Chair), Mary Lou Fiala, James M. Gould, Virginia Kent, and William Reisler, none of whom are employees or current or former officers of the Company, nor had any relationship with the Company required to be disclosed as transactions with related persons pursuant to Item 404(a) of Regulation S-K. No executive of the Company served on the compensation committee or board of any company that employed any member of the Company s Compensation Committee or Board of Directors.

Table of Contents

SUMMARY COMPENSATION TABLE

The following table sets forth information concerning the annual and long-term compensation for all services rendered in all capacities to the Company for the fiscal years ended December 31, 2011, January 1, 2011 and January 2, 2010. The Company cautions that the amounts reported in the Stock Awards and Option Awards columns may not represent the amounts that the Named Executive Officers will actually realize from the awards. Whether, and to what extent, a Named Executive Officer realizes value will depend on the Company s stock price when restricted stock vests or the stock option is exercised and on continued employment.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)(3)	Total ($)
Maxine Clark	2011	$ 654,031	$	$ 510,760	$ 169,954	$	$ 4,273	$ 1,168,765
Chief Executive Bear	2010	629,231		324,281	338,433	566,308	5,757	1,864,010
	2009	600,000		798,860	329,750		4,422	1,733,032
Tina Klocke	2011	339,231		176,886	58,752		7,954	523,852
Chief Operations and Financial Bear,	2010	303,269		117,935	123,073	131,012	5,666	680,955
Treasurer & Secretary	2009	285,000		284,672	115,263		3,901	688,836
Eric Fencl	2011	291,285		121,517	40,370		3,538	416,196
Chief Bearrister General	2010	285,000		67,798	70,765	82,080	3,719	509,362
Counsel and International								
Franchising	2009	270,462	149,875	437,826	61,531		1,572	921,266
David Finnegan	2011	288,773		101,720	33,784		3,482	393,852
Chief Information Bear	2010	280,846		61,920	64,618	80,883	5,165	493,432
	2009	256,731		141,901	44,839		3,461	446,932
Teresa Kroll	2011	253,515		88,455	29,383		4,202	346,070
Chief Marketing and Entertainment	2010	248,400		53,063	55,373	71,539	3,124	359,960
Bear	2009	248,400		100,314	44,839		2,659	396,209
John Haugh(4)	2011	234,762		176,886	58,752		671	412,100
Former President Bear	2010	368,269		117,935	123,073	185,607	32,108	826,992
	2009	269,231	50,000	224,756	117,739		85,716	747,442

(1) The amounts appearing in the Stock Awards column represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for restricted stock awards granted in fiscal 2011, fiscal 2010, and fiscal 2009. In fiscal 2011, the grant consisted of both performance-based restricted stock and time-based restricted stock. As discussed in the Compensation Discussion and Analysis, because the Company did not achieve the threshold earnings per share target for fiscal 2011, all of the performance-based restricted shares were forfeited in March 2012. In fiscal 2010 and 2009, all of the stock awards were in the form of time-based restricted stock. The recipients have the right to vote and receive dividends as to all unvested shares of time-based restricted stock, but did not have such rights with respect to performance-based restricted stock that was not earned. The time-based restricted stock grants in 2011 and 2010 vest at the rate of 25% per year over four years from the date of grant, beginning on the first anniversary of the date of grant. If any of the performance-based restricted stock grants in 2011 had been earned, they would have also vested at the rate of 25% per year over four years from the date of grant, beginning on the first anniversary of the date of grant. A portion of the restricted stock grants made in fiscal 2009 will vest at the rate of 25% per year over four years from the date of grant, beginning on the first anniversary of the date of grant and the remainder cliff vest three years from the date of grant. See Grants of Plan-Based Awards Table. See also Note 13 to the Company s Consolidated Financial Statements filed as part of our Annual Report on Form 10-K for the year ended December 31, 2011 for a discussion of the assumptions used in the valuation of awards. The grant date fair value of the performance-based restricted stock presented is based on the achievement of threshold performance levels per the instructions to Item 402(c) of Regulation S-K. The grant date fair value of the performance-based

restricted stock awards for each Named Executive Officer assuming that the maximum level of performance conditions was achieved is as follows: Maxine Clark $681,013; Tina Klocke $235,881; Eric Fencl $162,056; David Finnegan $135,626; Teresa Kroll $117,940 John Haugh $235,881.

(2) The amounts appearing in the Option Awards column represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for stock option awards granted in fiscal 2011, fiscal 2010 and fiscal 2009. The stock option grants vest at the rate of 25% per year over four years from the date of grant, beginning on the first anniversary of the date of grant. See Grants of Plan-Based Awards Table. See also Note 13 to the Company s Consolidated Financial Statements filed as part of our Annual Report on Form 10-K for the year ended December 31, 2011 for a discussion of the assumptions used in the valuation of awards.

(3) All Other Compensation includes relocation reimbursement, the Company s contribution to the 401(k) plan and to the non-qualified deferred compensation plan, payment by the Company of long term disability, and life insurance premiums for the benefit of the Named Executive Officers. For fiscal 2011, Company contributions to our 401(k) plan were as follows: Maxine Clark $2,641; Tina Klocke $2,606; Eric Fencl $2,518; David Finnegan $2,522; and Teresa Kroll $2,925. For fiscal 2011, Company contributions to our non-qualified deferred compensation plan for Ms. Klocke were $4,232. For fiscal 2011, Company-paid premiums for long-term disability insurance were as follows: Maxine Clark $840; Tina Klocke $560; Eric Fencl $840; David Finnegan $840; Teresa Kroll $761 John Haugh $560. For fiscal 2011, Company-paid premiums for life insurance were as follows: Maxine Clark $792; Tina Klocke $276; Eric Fencl $180; David Finnegan $120; Teresa Kroll $516 John Haugh $111.

(4) Mr. Haugh s employment with the Company commenced March 16, 2009 and terminated on July 22, 2011. Under the terms of the applicable stock and option grant agreements between Mr. Haugh and the Company, all unvested restricted stock and unexercised option awards were forfeited following termination of employment. A total of 73,102 shares of restricted stock and 7,468 vested option awards were forfeited.

Table of Contents

2011 GRANTS OF PLAN-BASED AWARDS

The following table sets forth certain information with respect to plan-based awards granted to each of our Named Executive Officers during the fiscal year ended December 31, 2011.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	Grant Date	Threshold ($)[1]	Target ($)[1]	Maximum ($)[1]	Threshold (#)[2]	Target (#)[2]	Maximum (#)[2]	(#)[2]	(#)[2]	($/Sh)	Awards
Maxine Clark		$ 163,508	$ 654,031	$ 981,047							
	3/22/11[3]				27,416	54,832	109,664				$ 340,507
	3/22/11[4]							54,832			340,507
	3/22/11[5]								44,412	$6.21	169,654
Tina Klocke		59,365	237,462	356,193							
	3/22/11[3]				9,496	18,992	37,984				117,940
	3/22/11[4]							18,988			117,915
	3/22/11[5]								15,380	$6.21	58,752
Eric Fencl		29,360	117,440	176,160							
	3/22/11[3]				6,524	13,048	26,096				81,028
	3/22/11[4]							13,044			81,003
	3/22/11[5]								10,568	$6.21	40,370
David Finnegan		29,090	116,360	174,540							
	3/22/11[3]				5,460	10,920	21,840				67,813
	3/22/11[4]							10,920			67,813
	3/22/11[5]								8,844	$6.21	33,784
Teresa Kroll		25,540	102,160	153,240							
	3/22/11[3]				4,748	9,496	18,992				58,970
	3/22/11[4]							9,496			58,970
	3/22/11[5]								7,692	$6.21	29,383
John Haugh[6]		67,270	269,080	403,620							
	3/22/11[3]				9,496	18,992	37,984				117,940
	3/22/11[4]							18,988			117,915
	3/22/11[5]								15,380	$6.21	58,752

(1) Amounts represent the range of possible cash payouts for fiscal 2011 awards under the 2011 Bonus Plan. This chart reflects the threshold, target and maximum bonus amounts payable under the 2011 Bonus Plan performance year if pre-established financial targets would have been met, or in the case of the Threshold, if the Committee had exercised its discretion to pay up to 25% of the target bonus if the Company s EBITDA was more than $27,000,000 but less than $29,800,000. The amounts listed above were calculated based on the threshold, target, and maximum percentages as a percentage of the executive s base salary paid in 2011 except for Mr. Haugh s amounts which are calculated using his annual base salary at the time his

employment terminated. As noted in the Section entitled Compensation Discussion and Analysis , the Company s EBITDA performance for fiscal 2011 was below threshold and, therefore, no cash payout was earned.

(2) These grants were made pursuant to the Stock Incentive Plan.

(3) These restricted stock awards were performance-based and would have vested in equal installments over four years if the Company had achieved certain 2011 earnings per share results as discussed in the Compensation Discussion and Analysis . Because the Company did not achieve the threshold earnings per share target for fiscal 2011, all of these shares were forfeited in March 2011. Prior to forfeiture of the shares, the Named Executive Officers did not have the right to vote or receive dividends on any of unvested shares of stock. The fair market value of the restricted stock on the date of grant was $6.21 per share.

(4) These restricted stock awards are subject to time-based vesting only and will vest in equal installments over four years. Executives have the right to vote and receive dividends as to all unvested shares of stock. The fair market value of the restricted stock on the date of grant was $6.21 per share. The grant date fair value is computed in accordance with FASB ASC Topic 718.

(5) These stock options are subject to time-based vesting only and will vest in equal installments over four years. The stock option exercise price is the closing price of the Company s common stock on the date of grant. The grant date fair value is computed in accordance with FASB ASC Topic 718.

(6) All of Mr. Haugh s unvested restricted stock and unexercised option awards were forfeited in 2011 in connection with the termination of his employment.

Table of Contents

OUTSTANDING EQUITY AWARDS AT 2011 FISCAL YEAR-END

The following table discloses information regarding outstanding awards under the Company s Second Amended and Restated 2004 Stock Incentive Plan, as amended, as of the fiscal year end of December 31, 2011.

	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable[1]	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)[2]	Market Value of Shares or Units of Stock That Have Not Vested ($)[3]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)[4]	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)[4]
Maxine Clark	36,234		$ 8.78	3/16/2014				
	35,000		34.65	3/8/2015				
	52,508	52,508	5.11	3/17/2019				
	20,536	61,608	6.59	3/23/2020				
		44,412	6.21	3/22/2021				
					241,351	$ 2,041,829	27,416	$ 231,939
Tina Klocke	25,000		9.10	4/24/2013				
	25,000		8.78	3/16/2014				
	6,500		34.65	3/8/2015				
	18,354	18,354	5.11	3/17/2019				
	7,648	22,404	6.59	3/23/2020				
		15,380	6.21	3/22/2021				
					88,106	745,377	9,496	80,336
Eric Fencl	9,798	9,798	5.11	3/17/2019				
	4,294	12,882	6.59	3/23/2020				
		10,568	6.21	3/22/2021				
					109,256	924,306	6,524	55,193
David Finnegan	2,000		34.65	3/8/2015				
	7,140	7,140	5.11	3/17/2019				
	3,921	11,763	6.59	3/23/2020				
		8,844	6.21	3/22/2021				
					49,535	419,066	5,460	46,192
Teresa Kroll	10,000		8.78	3/16/2014				
	6,500		34.65	3/8/2015				
		7,140	5.11	3/17/2019				
		10,080	6.59	3/23/2020				
		7,692	6.21	3/22/2021				
					33,924	286,997	4,748	40,168
John Haugh[5]								

(1) The amounts appearing in this column represent the total number of time-based stock options that have not vested as of December 31, 2011. Stock options granted on March 22, 2011, March 23, 2010 and March 17, 2009 vest at the rate of 25% per year over four years from the date of grant beginning on the first anniversary of the grant date.

(2) The amounts appearing in this column represent the total number of time-based restricted shares that have not vested as of December 31, 2011. Restricted stock granted on March 20, 2008 vests at the rate of 25% per year over four years from the date of grant beginning on the first anniversary of the grant date. The amounts of unvested restricted stock held under the March 2008 award by our Named Executive Officers at December 31, 2011 are as follows: Tina Klocke

2,121 and David Finnegan 3,394. Restricted stock granted to Mr. Fencl on July 1, 2008 vests at the rate of 25% per year over four years from the date of grant beginning on the first anniversary of the grant date and the amount of unvested restricted stock under this grant at December 31, 2011 was 4,115. Restricted stock granted on March 17, 2009 vests at the rate of 25% per year over four years from the date of grant beginning on the first anniversary of the grant date. The amounts of unvested restricted stock held under the March 17, 2009 award by our Named Executive Officers at December 31, 2011 are as follows: Maxine Clark 27,304; Tina Klocke 9,544; Eric Fencl 5,094; David Finnegan 3,712; and Teresa Kroll 3,712. Restricted stock grants that were subject to stockholder approval of the Stock Incentive Plan on May 14, 2009 cliff vest on March 17, 2012 and the amounts of unvested restricted stock held under this award by our Named Executive Officers at December 31, 2011 are as follows: Maxine Clark 122,309; Tina Klocke 44,031; Eric Fencl 24,462; David Finnegan 24,462; and Teresa Kroll 14,677. Restricted stock granted to Mr. Fencl on September 16, 2009 cliff vests on September 16, 2012 and the amount of unvested restricted stock under this grant at January 1, 2011 was 54,825. Restricted stock granted on March 23, 2010 vests at the rate of 25% per year over four years from the date of grant beginning on the first anniversary of the grant date. The amounts of unvested restricted stock held under the March 2010 award by our Named Executive Officers at December 31, 2011 are as follows: Maxine Clark 36,906; Tina Klocke 13,422; Eric Fencl 7,716; David Finnegan 7,047; and Teresa Kroll 6,039. Restricted stock granted on March 22, 2011 vests at the rate of 25% per year over four years from the date of grant beginning on the first anniversary of the grant date. The amounts of unvested restricted stock held under the March 2011 award by our Named

Table of Contents

Executive Officers at December 31, 2011 are as follows: Maxine Clark 54,832; Tina Klocke 18,988; Eric Fencl 13,044; David Finnegan 10,920; and Teresa Kroll 9,496.

(3) The amounts appearing in this column represent the aggregate market value of time-based restricted shares that have not vested as of January 1, 2011 and are based on the closing price of $8.46 for the shares of common stock on December 30, 2011.

(4) The amounts reflect the number and payout value of unearned performance-based restricted shares based on the assumed achievement of threshold performance goals. The payout value is based on the closing price of $8.46 for the shares of common stock on December 30, 2011. However, because the Company did not achieve the threshold earnings per share target for fiscal 2011, all of these shares were forfeited in March 2012.

(5) All of Mr. Haugh s unvested and unexercised outstanding equity awards were forfeited in 2011 in connection with the termination of his employment.

2011 OPTION EXERCISES AND STOCK VESTED

The following table provides information regarding stock options that were exercised by our Named Executive Officers and restricted stock that vested during the fiscal year ended December 31, 2011.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Maxine Clark		$	33,954	$212,562
Tina Klocke	11,000	3,740	13,742	86,346
Eric Fencl			9,234	58,169
David Finnegan			9,449	60,058
Teresa Kroll	10,500	25,819	5,369	33,591
John Haugh	21,803	49,011	10,143	63,722

NON-QUALIFIED DEFERRED COMPENSATION

The following table provides information regarding our Named Executive Officers non-qualified deferred compensation during the fiscal year ended December 31, 2011.

Name	Executive Contributions in Last FY($)	Registrant Contributions in Last FY($)(1)	Aggregate Earnings in Last FY($)(1)	Aggregate Balance at Last FYE($)(2)
Maxine Clark	$	$	$	$
Tina Klocke(3)	14,061	4,232	(2,576)	74,995
Eric Fencl				
David Finnegan(3)	653		(3,693)	65,109
Teresa Kroll			3,442	99,722
John Haugh				

(1) Executive Contributions and Registrant Contributions during the last fiscal year are reported as compensation in the Summary Compensation Table included in this proxy statement.

(2) For prior years, all amounts contributed by a Named Executive Officer and by the Company in such years have been reported in the Summary Compensation Table in our previously filed proxy statements in the year earned to the extent the executive was named in such proxy statements and the amounts were so required to be reported in such tables.

(3) Ms. Klocke and Mr. Finnegan were the only Named Executive Officers who contributed to the Non-Qualified Deferred Compensation Plan during 2011. In March of each year, contributions to the plan during the preceding fiscal year are matched by the Company. Amounts shown for Registrant Contributions were made in March 2012 as the Company s matching contribution for 2011 contributions, which was 30% up to the maximum of 6% of contributions made to the plan combined with the contributions made to the Company s qualified 401(k) plan. The Company s matching contribution does not fully vest until the participant has been employed by the Company for five years.

A description of the Company s Non-Qualified Deferred Compensation Plan is included in the Compensation Discussion and Analysis section.

EXECUTIVE EMPLOYMENT AND SEVERANCE AGREEMENTS

The Company currently has employment agreements with Maxine Clark, our Chief Executive Bear; Tina Klocke, our Chief Operations and Financial Bear, Treasurer and Secretary; Eric Fencl, our Chief Bearrister, General Counsel and International Franchising; David Finnegan, our Chief Information Bear; Teresa Kroll, our Chief Marketing and Entertainment Bear; and certain other executives. The Company also had an employment agreement with John Haugh, our former President Bear, prior to his termination of employment in July 2011. The material terms of the agreements, as amended, are described below.

Ms. Clark s agreement had an initial term of five years from May 1, 2004 and renews from year-to-year thereafter. The agreement may be terminated by the Company prior to the end of the term upon death, disability, for cause (as defined in the

agreement) or, following the initial term, without cause. Ms. Clark may terminate the agreement if the Company materially breaches the agreement and fails to cure such breach within 30 days after notice. If Ms. Clark terminates her employment for good reason (as defined in the agreement), or if the Company terminates her employment without cause after the initial term, the Company is obligated to continue her base salary for a period of 24 months after her termination, such payments to be reduced by any amount received from a subsequent employer during such period. For 24 months, the Company will also pay towards the premium for any continuation or conversion of welfare benefit insurance coverage an amount equal to the amount it was paying for Ms. Clark s coverage under the Company s welfare benefit plans as of the termination date.

As compensation for her services, Ms. Clark will receive an annual base salary of not less than $375,000, which will be reviewed annually and be commensurate with similarly-situated executives in similarly-situated firms. During the time since her employment agreement was entered into in May 2004, Ms. Clark has periodically received salary increases. Effective March 2011, Ms. Clark s annual base salary was increased to $659,200 following such review. If Ms. Clark s performance targets are achieved, her salary must be increased annually by no less than the average percentage increase given to all of our other executive employees for such fiscal year. If the Company exceeds certain performance objectives, Ms. Clark is entitled to receive an annual bonus of not less than 125% of her annual salary for the fiscal year as determined by the Compensation and Development Committee. In March 2011, Ms. Clark and the Company amended her employment agreement to provide that her target bonus for fiscal 2011 would be 100%, rather than the 125% set forth in her agreement. The agreement provides that Ms. Clark will be the highest paid executive with the Company over the course of her employment. Any bonus payable to Ms. Clark will be payable in cash, stock, stock options or a combination thereof. Ms. Clark will also be entitled to receive an automobile allowance and such other perquisites and benefits as we may award her from time to time. (Ms. Clark does not currently receive such car allowance or other perquisites, except as otherwise noted in this proxy statement.) The agreement also requires the Company to maintain life insurance on Ms. Clark in the amount of $2 million, under which the Company is the beneficiary.

Ms. Klocke s agreement had an initial term of three years from March 7, 2004 and renews from year-to-year thereafter. The agreement may be terminated by the Company prior to the end of the term upon death, disability, for cause (as defined in the agreement), or without cause. Ms. Klocke may terminate the agreement in the event the Company materially breaches the agreement or the Company relocates Ms. Klocke to a location more than 100 miles from St. Louis and fails to cure such breach after notice. If we terminate Ms. Klocke s employment without cause or if Ms. Klocke terminates her employment for good reason (as defined in the agreement), we are obligated to continue her base salary for a period of 12 months after her termination, such payments to be reduced by any amounts received from a subsequent employer during such period. As compensation for her services, Ms. Klocke will receive an annual base salary at a rate not less than $190,000 which rate will be reviewed annually and be commensurate with similarly-situated executives in similarly-situated firms. During the time since her employment agreement was entered into in March 2004, Ms. Klocke has periodically received salary increases. Effective March 2011, Ms. Klocke s annual base salary was increased to $350,000 following such review. If Ms. Klocke s performance targets are achieved, her salary must be increased annually by no less than the average percentage increase given to all of our other executive employees during that fiscal year. If the Company exceeds certain performance objectives determined annually by our Board of Directors, Ms. Klocke will receive an annual bonus of not less than 35% of her annual base salary, payable in cash, stock, stock options or a combination thereof. For 2011, her bonus target was 70% of her annual base salary.

Mr. Fencl s agreement had an initial term of three years from July 1, 2008 and renews from year-to-year thereafter. The agreement may be terminated by the Company prior to the end of the term upon death, disability, for cause (as defined in the agreement), or without cause. Mr. Fencl may terminate the agreement in the event the Company materially breaches the agreement and fails to cure such breach after notice or the Company issues a notice of non-renewal which results in the expiration of the agreement. If we terminate Mr. Fencl s employment without cause or if Mr. Fencl terminates his employment for good reason (as defined in the agreement), we are obligated to continue his base salary for a period of 12 months after his termination, such payments to be reduced by any amounts received from a subsequent employer during such period. For the period that welfare benefits are continued under COBRA, the Company will continue to pay the Company s portion of the medical plan premium. As compensation for his services, Mr. Fencl will receive an annual base salary at a rate not less than $264,000 which rate will be reviewed annually and be commensurate with similarly-situated executives in similarly-situated firms. During the time since his employment agreement was entered into in July 2008, Mr. Fencl has periodically received salary increases. Effective March 2011, Mr. Fencl s annual base salary was $293,600 following such review. If Mr. Fencl s performance targets are achieved, his salary must be increased annually by no less than the average percentage increase given to all of our other executive employees during that fiscal year. If the Company exceeds certain performance objectives determined annually by our Board of Directors, Mr. Fencl will receive an annual bonus of not less than 35% of his annual base salary, payable in cash, stock, stock options or a combination thereof. For 2011, his bonus target was 40% of his annual base salary.

Mr. Finnegan s agreement had an initial term of three years from January 10, 2007 and renews for successive three-year terms thereafter. The agreement may be terminated by the Company prior to the end of the term upon death, disability, for cause (as defined in the agreement), or without cause. Mr. Finnegan may terminate the agreement in the event the Company materially

Table of Contents

breaches the agreement and fails to cure such breach after notice. If we terminate Mr. Finnegan s employment without cause or if Mr. Finnegan terminates his employment for good reason (as defined in the agreement), we are obligated to continue his base salary for a period of 12 months after his termination, such payments to be reduced by any amounts received from a subsequent employer during such period. As compensation for his services, Mr. Finnegan will receive an annual base salary at a rate not less than $220,000 which rate will be reviewed annually and be commensurate with similarly-situated executives in similarly-situated firms. During the time since his employment agreement was entered into in January 2007, Mr. Finnegan has periodically received salary increases. Effective March 2011, Mr. Finnegan s annual base salary was increased to $290,900 following such review. If Mr. Finnegan s performance targets are achieved, his salary must be increased annually by no less than the average percentage increase given to all of our other executive employees during that fiscal year. If the Company exceeds certain performance objectives determined annually by our Board of Directors, Mr. Finnegan will receive an annual bonus of not less than 35% of his annual base salary, payable in cash, stock, stock options or a combination thereof. For 2011, his bonus target was 40% of his annual base salary.

Ms. Kroll s agreement had an initial term of one year from September 10, 2001 and renews from year-to-year thereafter. The agreement may be terminated by the Company prior to the end of the term upon death, disability, for cause (as defined in the agreement), or without cause. Ms. Kroll may terminate the agreement in the event the Company materially breaches the agreement and fails to cure such breach within 30 days after notice. If we terminate Ms. Kroll s employment without cause or if Ms. Kroll terminates her employment for good reason (as defined in the agreement), we are obligated to continue her base salary for a period of 12 months after her termination, such payments to be reduced by any amounts received from a subsequent employer during such period. As compensation for her services, Ms. Kroll will receive an annual base salary at a rate not less than $185,000, which rate will be reviewed annually and be commensurate with similarly-situated executives in similarly-situated firms. During the time since her employment agreement was entered into in September 2001, Ms. Kroll has periodically received salary increases. Effective March 2011, Ms. Kroll s annual base salary was increased to $255,400 following such review. If Ms. Kroll s performance targets are achieved, her salary must be increased annually by no less than the average percentage increase given to all of our other executive employees during that fiscal year. If the Company exceeds certain performance objectives determined annually by our Board of Directors, Ms. Kroll will receive an annual bonus of not less than 35% of her annual base salary, payable in cash, stock, stock options or a combination thereof. For 2011, her bonus target was 40% of her annual base salary.

Prior to his termination of employment, Mr. Haugh s agreement had an initial term of three years from March 16, 2009 and renewed from year-to-year thereafter. The agreement could have been terminated by the Company prior to the end of the term upon death, disability, for cause (as defined in the agreement), or without cause. Mr. Haugh could have terminated the agreement in the event the Company materially breached the agreement and failed to cure such breach after notice or the Company issued a notice of non-renewal which resulted in the expiration of the agreement. If we had terminated Mr. Haugh s employment without cause or if Mr. Haugh terminated his employment for good reason (as defined in the agreement), we would have been obligated to continue his base salary for a period of 12 months after his termination, such payments were to be reduced by any amounts received from a subsequent employer during such period. For the period that welfare benefits would have been continued under COBRA, the Company would have continued to pay the Company s portion of the medical plan premium. As compensation for his services, Mr. Haugh was entitled to receive an annual base salary at a rate not less than $350,000 which rate was reviewed annually and was to be commensurate with similarly-situated executives in similarly-situated firms. Effective March 2011, Mr. Haugh s annual base salary was increased to $384,400 following such review. If Mr. Haugh s performance targets were achieved, he was entitled to have his salary increased annually by no less than the average percentage increase given to all of our other executive employees during that fiscal year. If the Company exceeded certain performance objectives determined annually by our Board of Directors, Mr. Haugh would have received an annual bonus of not less than 50% of his annual base salary, payable in cash, stock, stock options or a combination thereof. For 2011, his bonus target was 70% of his annual base salary.

The employment agreements for Ms. Clark, Ms. Klocke, Mr. Fencl, Mr. Finnegan, Ms. Kroll, and Mr. Haugh (prior to his termination of employment), provide that:

for the term of the agreement and for one year thereafter (except for Ms. Clark s agreement, which prohibits such conduct for two years after the term of the agreement, and Ms. Klocke s and Ms. Kroll s agreements, which prohibit such conduct for three years after the term of the agreements), the employee may not become employed by or interested directly or indirectly in or associated with our competitors who are located within the United States or within any country where we have established a retail presence (or in the case of Ms. Kroll, which is located within 100 miles of any Company retail store); and

in the event of the employee s termination due to death, disability, or our breach as provided in the agreement, the executive or his or her beneficiaries or estate, will still be entitled to a bonus for such year prorated based on the number of full weeks the employee was employed during the year.

Table of Contents

Potential Payments Upon Termination or Change-In-Control

Our Named Executive Officers are eligible to receive certain benefits in the event of termination of such officer s employment, including following a change-in-control. The following table presents potential payments to each of our Named Executive Officers other than John Haugh as if the officer s employment had been terminated as of December 31, 2011, the last day of fiscal 2011. John Haugh s employment with the Company terminated in July 2011. The termination benefits provided to our Named Executive Officers upon their voluntary termination of employment or retirement do not discriminate in scope, terms or operation in favor of our executive officers compared to the benefits offered to all salaried employees, so those benefits are not included in the table below. The amounts presented in the table are in addition to amounts each Named Executive Officer earned or accrued prior to termination, such as the officer s balances in our Non-Qualified Deferred Compensation Plan, previously vested options and restricted stock, and accrued vacation. For information about these previously earned and accrued amounts, see the Outstanding Equity Awards at 2011 Fiscal Year-End , 2011 Option Exercises and Stock Vested and Non-Qualified Deferred Compensation tables located elsewhere in this proxy statement.

Name/Circumstance	Salary Continuation[1]	Bonus [2]	Equity With Accelerated Vesting[3]	Continued Perquisites and Benefits[4]	Total
Maxine Clark					
Death	$	$ 0	$ 2,432,865	$	$ 2,432,865
Disability		0			0
Severance Termination[5]	1,318,400	0		14,236	1,332,636
Termination for Cause					
Involuntary Termination if Change-in Control	1,318,400	0	2,432,865	14,236	3,765,501
Change-in-Control (no termination)			2,432,865		2,432,865
Tina Klocke					
Death		0	883,363		883,363
Disability		0			0
Severance Termination[5]	350,000	0			350,000
Termination for Cause					
Involuntary Termination if Change-in Control	350,000	0	883,363		1,233,363
Change-in-Control (no termination)			883,363		883,363
Eric Fencl					
Death		0	1,004,996		1,004,996
Disability		0			0
Severance Termination[5]	293,600	0		8,934	302,534
Termination for Cause					
Involuntary Termination if Change-in Control	293,600	0	1,004,996	8,934	1,307,530
Change-in-Control (no termination)			1,004,996		1,004,996
David Finnegan					
Death		0	484,881		484,881
Disability		0			0
Severance Termination[5]	290,900	0			290,900
Termination for Cause					
Involuntary Termination if Change-in Control	290,900	0	484,881		775,781
Change-in-Control (no termination)			484,881		484,881
Teresa Kroll					
Death		0	352,446		352,446
Disability		0			0
Severance Termination[5]	255,400	0			255,400
Termination for Cause					
Involuntary Termination if Change-in Control	255,400	0	352,446		607,846
Change-in-Control (no termination)			352,446		352,446

(1) Severance pay is salary continuation of base salary for 24 months for Ms. Clark and 12 months for Mses. Klocke and Kroll and Messrs. Fencl and Finnegan, in each case reduced by the amount of any cash compensation from a subsequent employer during such period.

(2)

Where indicated, the Named Executive Officer is entitled to pro-rated bonus based on the number of full calendar weeks during the applicable fiscal year during which the executive was employed. Amount shown is the actual bonus paid in March 2012 for 2011.

(3) The amounts appearing in this column represent the aggregate market value of time-based restricted shares and the value of stock options, the vesting of which would have been accelerated, each based on the closing price of $8.46 for the shares of common stock on December 30, 2011. If a change of control occurred prior to the end of the fiscal year, vesting would have accelerated for the target number of performance-based restricted shares. For changes of control after year end, vesting would have accelerated for shares earned based on Company financial performance. However, because the Company did not achieve the threshold earnings per share target for fiscal 2011, and the above table assumes that the change of control happened at year-end, vesting would not have accelerated for performance-based restricted shares.

(4) In the event of involuntary termination, for 24 months, the Company will also pay towards the premium for any continuation or conversion of welfare benefit insurance coverage an amount equal to the amount it was paying for Ms. Clark s coverage under the Company s welfare benefit plans as of the termination date. In the event of an involuntary termination, Ms. Klocke s and Ms. Kroll s employment agreements require the Company to continue the Company s welfare benefits

30

for 12 months to the extent permitted by the Company s welfare benefit plans. However, the amount shown above is zero because such plans currently do not permit the Company to continue to provide such benefits following termination of employment. For the period that welfare benefits are continued under COBRA, the Company will continue to pay the Company s portion of Mr. Fencl s medical plan premium. Mr. Finnegan s employment agreement does not require the Company to pay for post-termination welfare benefits in excess of benefits required under COBRA.

(5) Severance Termination would occur if the Company terminated the executive without cause or the executive terminated his or her employment for good reason (as each is defined in the applicable employment agreement).

PROPOSAL NO. 2. RATIFICATION OF APPOINTMENT OF INDEPENDENT ACCOUNTANTS

Ernst & Young LLP served as the Company s independent registered public accounting firm for the year ended December 31, 2011. The Audit Committee of the Board of Directors has appointed Ernst & Young LLP to act in that capacity for fiscal 2012, which ends on December 29, 2012. A representative of Ernst & Young LLP is expected to be present at the annual meeting with the opportunity to make a statement if he or she desires to do so and to be available to respond to appropriate questions from stockholders.

Although the Company is not required to submit this appointment to a vote of the stockholders, the Audit Committee of the Board of Directors continues to believe it appropriate as a matter of policy to request that the stockholders ratify the appointment of Ernst & Young LLP as principal independent registered public accounting firm. If the stockholders do not ratify the appointment, the Audit Committee will investigate the reasons for stockholder rejection and consider whether to retain Ernst & Young LLP or appoint another independent registered public accounting firm. Even if the appointment is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF ERNST & YOUNG LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 29, 2012.

Principal Accountant Fees

The following table presents fees for professional services rendered by Ernst & Young LLP for the audit of the Company s annual financial statements for the fiscal year ended December 31, 2011 and for professional services rendered by KPMG LLP for the fiscal year ended January 1, 2011, as well as fees billed for other services rendered by each firm during those periods:

	Fiscal 2011	Fiscal 2010
Audit Fees(1)	**$ 518,000**	$ 692,510
Audit-Related Fees		
Tax Fees	**57,500**	
All Other Fees		
Total Fees	**$ 575,500**	$ 692,510

(1) Audit fees are fees paid for professional services rendered for the audit of the Company s annual consolidated financial statements, reviews of the Company s interim consolidated financial statements and statutory audit requirements at certain non-U.S. locations.

Policy Regarding Pre-Approval of Services Provided by the Independent Registered Public Accounting Firm

The Audit Committee Charter requires the Audit Committee s pre-approval of all audit and permitted non-audit services to be performed for the Company by the independent registered public accounting firm. In determining whether proposed services are permissible, the Audit Committee considers whether the provision of such services is compatible with maintaining auditor independence. As part of its consideration of proposed services, the Audit Committee may consult with management as part of the decision making process, but may not delegate this authority to management. Pursuant to a delegation of authority from the Audit Committee, the Chair of the Audit Committee may pre-approve such audit or permitted non-audit services. If the Chair approves any such services, any such approvals are presented to the full Audit Committee at the next scheduled Audit Committee meeting. All of the services performed by Ernst & Young LLP during fiscal 2011 and KPMG LLP during fiscal

2010 were pre-approved by the Audit Committee.

Table of Contents

Change in Independent Registered Public Accounting Firm

On July 11, 2011, the Audit Committee of the Board of Directors of the Company approved the engagement of Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ended December 31, 2011. In connection with the selection of Ernst & Young LLP, on July 11, 2011, the Audit Committee also dismissed KPMG LLP as the Company s independent registered public accounting firm. The decision to change auditors was the result of a request for proposal process in which the Company evaluated the credentials of several firms.

During the fiscal years ended January 2, 2010 and January 1, 2011 and the subsequent interim period through July 11, 2011, neither the Company nor anyone on its behalf consulted with Ernst & Young LLP with respect to either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company s consolidated financial statements, and neither a written report nor oral advice was provided to the Company that Ernst & Young LLP concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K).

The audit reports of KPMG LLP on the Company s consolidated financial statements as of and for the fiscal years ended January 2, 2010 and January 1, 2011 did not contain an adverse opinion or a disclaimer of an opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. The audit reports of KPMG LLP on the effectiveness of internal control over financial reporting as of January, 2, 2010 and January 1, 2011 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal years ended January 2, 2010 and January 1, 2011 and the subsequent interim period through July 11, 2011, there were no disagreements (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) with KPMG LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG LLP, would have caused KPMG LLP to make reference to the subject matter of the disagreements in its audit reports on the Company s consolidated financial statements for such years.

During the fiscal years ended January 2, 2010 and January 1, 2011 and the subsequent interim period through July 11, 2011, there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

Table of Contents

PROPOSAL NO. 3. ADVISORY (NON-BINDING) VOTE APPROVING EXECUTIVE COMPENSATION

We are asking our stockholders to provide advisory approval of the compensation of our Named Executive Officers. As described in the Compensation Discussion and Analysis section of this proxy statement, the Compensation Committee has designed and implemented executive compensation programs that are intended to align with our stockholders interests. The fundamental objectives of our executive compensation program are to attract and retain highly qualified executive officers, to motivate these executive officers to materially contribute to our long-term business success, and to align the interests of our executive officers and stockholders by rewarding our executives for individual and corporate performance based on targets established by the Compensation Committee. Accordingly, a significant portion of our Named Executive Officers compensation is based on individual, corporate financial, and company stock price performance, while avoiding the encouragement of unnecessary or excessive risk-taking. Their total target direct compensation consisted of a mix of base salary, annual cash bonuses based on the achievement of pre-established targets, and long-term incentive awards with target award values allocated between stock options, time-based restricted stock, and performance-based restricted stock.

In March 2011, based on each officer s performance in 2010 and current salary compared to salaries for similar executives within the Company s peer group and market survey data, salaries for the Named Executive Officers were increased so that their salaries were within a competitive range of the median of the market data reviewed by the Committee. Annual bonus plan targets were pre-established based on revenue and EBITDA goals. The mix of long-term incentive compensation awards was adjusted to more directly align the Named Executive Officers interests with those of our stockholders through grants with target award values allocated between 25% stock options, 50% time-based restricted stock, and 25% performance-based restricted stock which would have been earned only upon achievement of pre-established earnings per share targets.

The Company s annual net retail sales in 2011 were essentially flat compared to 2010, which was disappointing after increases achieved in the second and third quarters. Although the Company achieved cost savings of $3.0 million and maintained a strong balance sheet, consolidated net retail sales were $387.0 million, essentially flat with fiscal 2010, excluding the impact of foreign currency, and the Company had a loss per share of $0.98 compared to diluted earnings per share of $0.01 in 2010. The net loss for 2011 included a $15.6 million non-cash income tax charge, or $0.88 per share, related to a valuation allowance against net deferred tax assets. Because these results fell short of the threshold performance levels, none of the Named Executive Officers earned a bonus and all performance-based restricted shares were forfeited.

In March 2012, to even further align our Named Executive Officers compensation with stockholder interests, the Committee approved long-term incentives for the Named Executive Officers with target award values allocated between 50% performance-based restricted stock, and 50% time-based restricted stock.

Additional information about the compensation of our Named Executive Officers is provided in the Executive Compensation section of this proxy statement which includes the Compensation Discussion and Analysis , compensation tables and narrative discussion.

While this vote is advisory, and not binding on our Company, it will provide information to our Compensation Committee regarding investor sentiment about our executive compensation philosophy, policies and practices, which the Committee will be able to consider when determining executive compensation for the remainder of fiscal 2012 and beyond.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SEC.

Table of Contents

REPORT OF THE AUDIT COMMITTEE

The primary function of the Audit Committee is to assist the Board of Directors in its oversight of the Company s financial reporting processes. Management is responsible for the Company s financial statements and overall reporting process, including the system of internal controls. The independent auditors are responsible for conducting annual audits and quarterly reviews of the Company s financial statements and expressing an opinion as to the conformity of the annual financial statements with generally accepted accounting principles.

The Audit Committee submits the following report pursuant to the SEC rules:

The Audit Committee has reviewed and discussed with management and with Ernst & Young LLP, the Company s independent registered public accounting firm, the audited and consolidated financial statements of the Company for the year ended December 31, 2011 (the 2011 Financial Statements).

Ernst & Young LLP has advised the management of the Company and the Audit Committee that it has discussed with them all the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board (PCAOB) in Rule 3200T, which include among other items, matters related to the conduct of the audit of the 2011 Financial Statements.

The Audit Committee has received from Ernst & Young LLP the written disclosures and the letter required by applicable requirements of the PCAOB regarding Ernst & Young LLP s communications with the Audit Committee concerning independence and has discussed Ernst & Young LLP s independence with them.

Based upon the aforementioned review, discussions and representations of Ernst & Young LLP, and the unqualified audit opinion presented by Ernst & Young LLP on the 2011 Financial Statements, the Audit Committee recommended to the Board of Directors that the 2011 Financial Statements be included in the Company s Annual Report on Form 10-K for the 2011 fiscal year and that Ernst & Young LLP be selected as the independent registered public accounting firm for the Company for fiscal 2012.

Submitted by the Audit Committee of the Board of Directors:

Louis Mucci, Chairman

Mary Lou Fiala

Virginia Kent

Braden Leonard

William Reisler

Table of Contents

STOCKHOLDER COMMUNICATIONS WITH THE BOARD

Our Board of Directors has adopted a policy to provide a process for holders of our securities to send written communications to our Board. Any stockholder wishing to send communications to our Board should send the written communication and the following information to our Corporate Secretary, Build-A-Bear Workshop, Inc., 1954 Innerbelt Business Center Drive, St. Louis, Missouri 63114:

- stockholder s name, number and type of securities owned, length of period held, and proof of ownership;
- name, age, business and residential address of stockholder; and
- any individual Director or committee to which the stockholder would like to have the written statement and other information sent.

The Corporate Secretary, or his or her designee, will collect and organize all of such stockholder communications as he or she deems appropriate and, at least once each year, forward these materials to the Non-Executive Chairman, any Committee Chair or individual Director. The Corporate Secretary may refuse to forward material which he or she determines in good faith to be scandalous, threatening or otherwise inappropriate for delivery. The Corporate Secretary will also maintain copies of such materials.

SELECTION OF NOMINEES FOR THE BOARD OF DIRECTORS

The Nominating and Corporate Governance Committee is responsible for identifying and recommending to the Board candidates to serve as members of the Board. The Nominating and Corporate Governance Committee has not adopted specific, minimum qualifications that nominees must meet in order for the Nominating and Corporate Governance Committee to recommend them to the Board, but rather, each nominee is individually evaluated based on his or her individual merits, taking into account our needs and the composition of the Board. The Nominating and Corporate Governance Committee seeks independent Directors who represent a mix of backgrounds and experiences that will enhance the quality of the board s deliberations and decisions. Candidates should have substantial experience with one or more publicly traded national or multinational companies or shall have achieved a high level of distinction in their chosen fields. The Nominating and Corporate Governance Committee has not adopted a formal policy with respect to diversity; however, the Board and the Nominating and Corporate Governance Committee believe that Board membership should reflect diversity in its broadest sense, including persons diverse in geography, gender, and ethnicity. The Nominating and Corporate Governance Committee will consider candidates submitted by a variety of sources including, without limitation, incumbent Directors, stockholders and our management. Periodically, the Company has engaged independent third party search firms to assist the Company in identifying and evaluating qualified Board candidates. The Nominating and Corporate Governance Committee has engaged and will pay fees to a third party search firm to assist with the search for the successor to Mr. Reisler.

In all cases, members of the Nominating and Corporate Governance Committee discuss and evaluate each potential candidate s educational background, employment history, outside commitments and other relevant factors in detail, and suggest individuals qualified to serve on the Board to explore in more depth. Once a candidate is identified whom the Nominating and Corporate Governance Committee wants to seriously consider and move toward nomination, the Chairman of the Nominating and Corporate Governance Committee, or his or her designee, meets with that nominee to evaluate his or her potential interest in serving on the Board and sets up interviews with the full Nominating and Corporate Governance Committee.

Any stockholder or interested party wishing to submit a candidate for consideration should send the following information to the Corporate Secretary, Build-A-Bear Workshop, Inc., 1954 Innerbelt Business Center Drive, St. Louis, Missouri 63114:

stockholder s name, number of shares owned, length of period held, and proof of ownership;

name, age and address of candidate;

a detailed resume describing, among other things, the candidate s educational background, occupation, employment history, and material outside commitments (for example, memberships on other boards and committees, charitable foundations and the like);

a supporting statement which describes the candidate s reasons for seeking election to the Board and documents his or her ability to serve on the Board;

any information relating to the candidate that is required to be disclosed in the solicitation of proxies for election of Directors;

a description of any arrangements or understandings between the stockholder and the candidate;

any other information that would be useful to the Committee in considering the candidate; and

a signed statement from the candidate, confirming his or her willingness to serve on the Board.

The Corporate Secretary will promptly forward such materials to the Nominating and Corporate Governance Committee Chair and the Chairman of the Board. The Corporate Secretary will also maintain copies of such materials for future reference by the Nominating and Corporate Governance Committee when filling Board positions. The same criteria applies with respect to the Nominating and Corporate Governance Committee s evaluation of all candidates for membership to the Board. However, separate procedures will apply, as provided in the bylaws, if a stockholder wishes to submit at an annual meeting a Director candidate who is not approved by the Nominating and Corporate Governance Committee or the full Board.

Table of Contents

STOCKHOLDER PROPOSALS

Our amended and restated bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as Directors at an annual meeting of stockholders, must provide timely notice in writing. To be timely, a stockholder s notice must be delivered to or mailed and received at our principal executive offices not more than 120 days or less than 90 days prior to the anniversary date of the immediately preceding annual meeting of stockholders, or between January 10, 2013 and February 9, 2013, in the case of the 2013 annual meeting. However, in the event that no annual meeting was held in the previous year or the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the stockholder, in order to be timely, must be received no later than the close of business on the 10th day following the date on which notice of the date of the annual meeting was mailed to stockholders or made public, whichever first occurs. Our amended and restated bylaws also specify requirements as to the form and content of a stockholder s notice. These provisions may preclude stockholders from bringing matters before an annual meeting of stockholders or from making nominations for Directors at an annual meeting of stockholders.

Stockholder proposals intended to be presented at the 2013 annual meeting must be received by the Company at its principal executive office no later than December 7, 2012 in order to be eligible for inclusion in the Company s proxy statement and proxy relating to that meeting. Upon receipt of any proposal, the Company will determine whether to include such proposal in accordance with regulations governing the solicitation of proxies.

OTHER MATTERS

Management does not intend to bring before the meeting any matters other than those specifically described above and knows of no matters other than the foregoing to come before the meeting. If any other matters or motions properly come before the meeting, it is the intention of the persons named in the accompanying proxy to vote such proxy in accordance with the recommendation of management on such matters or motions, including any matters dealing with the conduct of the meeting.

By Order of the Board of Directors

Tina Klocke

Chief Operations and Financial Bear, Treasurer and Secretary

APRIL 6, 2012

Table of Contents

APPENDIX A

DIRECTIONS TO THE COMPANY S WORLD BEARQUARTERS

1954 INNERBELT BUSINESS CENTER DRIVE

ST. LOUIS, MISSOURI 63114

Build-A-Bear Workshop s World Bearquarters is located at 1954 Innerbelt Business Center Drive. Signs will be posted in the parking lot to direct you to the appropriate entrance.

FROM LAMBERT INTERNATIONAL AIRPORT

Take I-70 east and merge onto I-170 south via Exit 238B. Take the Page Avenue exit, Exit 4. Turn right onto Page Avenue and right onto Innerbelt Business Center Drive.

FROM DOWNTOWN ST. LOUIS OR ILLINOIS

Take I-70 west and merge onto I-170 south via Exit 238B. Take the Page Avenue exit, Exit 4. Turn right onto Page Avenue and right onto Innerbelt Business Center Drive.

FROM NORTH COUNTY LOCATIONS

Take I-170 south to the Page Avenue exit, Exit 4. Turn right onto Page Avenue and right onto Innerbelt Business Center Drive.

FROM SOUTH COUNTY LOCATIONS

Take I-270 north to I-64/US-40 east via Exit 12. Merge onto I-170 north. Take the Page Avenue exit, Exit 4. Turn left onto Page Avenue and turn right onto Innerbelt Business Center Drive.

FROM WEST COUNTY LOCATIONS

Take I-64/US-40 east and merge onto I-170 north. Take the Page Avenue exit, Exit 4. Turn left onto Page Avenue and turn right onto Innerbelt Business Center Drive.

Table of Contents

Table of Contents

YOUR VOTE IS IMPORTANT. PLEASE VOTE TODAY.

We encourage you to take advantage of Internet or telephone voting.

Both are available 24 hours a day, 7 days a week.

Internet and telephone voting is available through 11:59 PM Eastern Time the day prior to the stockholder meeting date.

BUILD-A-BEAR WORKSHOP, INC.

INTERNET
http://www.proxyvoting.com/bbw

Use the Internet to vote your proxy. Have your proxy card in hand when you access the web site.

OR

TELEPHONE

1-866-540-5760

Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.

If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.

To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

20060

q **FOLD AND DETACH HERE** q

THIS PROXY WILL BE VOTED AS DIRECTED, OR IF NO DIRECTION IS INDICATED, WILL BE VOTED FOR ALL OF THE NOMINEES FOR DIRECTOR AND FOR PROPOSALS 2, 3 AND 4.

Please mark your votes as indicated in this example X

	FOR ALL NOMINEES	WITHHOLD ALL	FOR ALL EXCEPT (see below)
1. To elect two Directors	¨	¨	¨

Nominees :

01 Braden Leonard

02 Coleman Peterson

Instructions:

Withhold for the nominees you list below: (Write that nominee s name in the space provided below.)

	FOR	AGAINST	ABSTAIN
2. To ratify the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for the Company s current fiscal year.	¨	¨	¨
3. Advisory vote on executive compensation.	¨	¨	¨
4. To transact such other business as may properly come before the meeting or any adjournments thereof.	¨	¨	¨

I PLAN TO ATTEND THE ANNUAL MEETING OF STOCKHOLDERS ¨

Mark Here for Address Change or Comments ¨

SEE REVERSE

NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

Signature	Signature	Date

Table of Contents

You can now access your Build-A-Bear Workshop, Inc. account online.

Access your Build-A-Bear Workshop, Inc. account online via Investor ServiceDirect® (ISD).

The transfer agent for Build-A-Bear Workshop, Inc., now makes it easy and convenient to get current information on your shareholder account.

View account status	View payment history for dividends
View certificate history	Make address changes
View book-entry information	Obtain a duplicate 1099 tax form

Visit us on the web at http://www.bnymellon.com/shareowner/equityaccess

For Technical Assistance Call 1-877-978-7778 between 9am-7pm

Monday-Friday Eastern Time

Investor ServiceDirect ®

Available 24 hours per day, 7 days per week

TOLL FREE NUMBER: 1-800-370-1163

Choose **MLink℠** for fast, easy and secure 24/7 online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect®** at www.bnymellon.com/shareowner/equityaccess where step-by-step instructions will prompt you through enrollment.

Important notice regarding the Internet availability of proxy materials for the Annual Meeting of Stockholders. The Proxy Statement and the 2011 Annual Report to Stockholders are available at: **https://materials.proxyvote.com/120076**

q **FOLD AND DETACH HERE** q

PROXY

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

OF BUILD-A-BEAR WORKSHOP, INC.

The undersigned hereby appoints Chief Executive Bear Maxine Clark and Chief Operations and Financial Bear, Treasurer and Secretary Tina Klocke, and each of them, with power to act without the other and with power of substitution, as proxies and attorneys-in-fact and hereby authorizes them to represent and vote, as provided on the other side, all the shares of Build-A-Bear Workshop, Inc. Common Stock which the undersigned is entitled to vote, and, in their discretion, to vote upon such other business as may properly come before the Annual Meeting of Stockholders of the company to be held on May 10, 2012 or at any adjournment or postponement thereof, with all powers which the undersigned would possess if present at the Meeting.

Address Change/Comments
(Mark the corresponding box on the reverse side)

SHAREOWNER SERVICES
P.O. BOX 3550
SOUTH HACKENSACK, NJ 07606-9250

(Continued and to be marked, dated and signed, on the other side) 20060