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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

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## FORM 10-Q

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**QUARTERLY REPORT PURSUANT TO THE INDENTURE, DATED AS OF OCTOBER 4, 2005 AMONG BROOKSTONE, INC., A DELAWARE CORPORATION, BROOKSTONE COMPANY, INC., THE GUARANTORS (AS DEFINED THEREIN) AND WELLS FARGO BANK, N.A., AS TRUSTEE**

For the quarterly period ended  
**April 4, 2009**

### **BROOKSTONE, INC.**

(Exact name of company as specified in its charter)

<b>Delaware</b> (State of Incorporation)	<b>One Innovation Way</b> <b>Merrimack, NH 03054</b> (Address of Principal Executive Offices)	<b>06-1182895</b> (I.R.S. Employer Identification No.)
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**603-880-9500**  
(Company's Telephone Number, Including Area Code)

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Indicate by check mark whether the company (1) has filed with the Securities Exchange Commission or posted on its website all reports required to be prepared pursuant to the Indenture, dated as of October 4, 2005, among the Company, Brookstone Company, Inc., each of the Guarantors and Wells Fargo Bank, N.A. as Trustee during the preceding 12 months (or for such shorter period that the company was required to prepare such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant 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 (§232.405 of this chapter) 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 company 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 Accelerated filer  
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting Company

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

The company had one share of common stock, par value \$0.01, outstanding as of May 14, 2009.

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**Brookstone, Inc.**  
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**PART I - FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

**BROOKSTONE, INC.  
CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	April 4, 2009 (Unaudited)	January 3, 2009	March 29, 2008 (Unaudited)
<b><u>Assets</u></b>			
Current assets:			
Cash and cash equivalents	\$ 3,671	\$ 22,530	\$ 16,958
Receivables, net	5,736	9,839	9,130
Merchandise inventories	69,925	82,095	93,815
Deferred income taxes, net	---	---	11,388
Prepaid expenses	9,648	16,379	9,667
Total current assets	88,980	130,843	140,958
Property, plant and equipment, net	63,847	66,456	69,381
Intangible assets, net	105,000	105,000	129,333
Goodwill	99,734	99,734	189,524
Other assets	7,823	8,565	11,045
Total assets	\$ 365,384	\$ 410,598	\$ 540,241
<b><u>Liabilities and Equity</u></b>			
Current liabilities:			
Accounts payable	\$ 9,812	\$ 17,033	\$ 11,501
Other current liabilities	30,321	41,179	34,827
Total current liabilities	40,133	58,212	46,328
Other long-term liabilities	21,836	21,370	20,497
Long-term debt	173,934	174,089	174,622
Deferred income taxes	38,020	38,430	43,001
Total liabilities	273,923	292,101	284,448
Commitments and contingencies (See Note 6)	---	---	---
Equity:			
Brookstone Shareholder's equity:			
Common stock – \$0.01 par value 1,000 shares authorized, one share issued and outstanding	---	---	---
Additional paid-in capital	241,394	241,205	240,588
Accumulated other comprehensive income (loss)	(537)	(532)	533
Retained earnings (deficit)	(150,566)	(123,216)	13,355
Total Brookstone Shareholder's equity	90,291	117,457	254,476
Noncontrolling interests	1,170	1,040	1,317
Total equity	91,461	118,497	255,793
Total liabilities and equity	\$ 365,384	\$ 410,598	\$ 540,241

*The accompanying notes are an integral part of these financial statements.*

**BROOKSTONE, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands)  
(Unaudited)

	<b>Thirteen weeks ended</b>	
	<b>April 4, 2009</b>	<b>March 29, 2008</b>
Net sales	\$ 61,460	\$ 89,801
Cost of sales	<u>54,892</u>	<u>68,016</u>
Gross profit	6,568	21,785
Selling, general and administrative expenses	<u>27,353</u>	<u>34,735</u>
Loss from operations	(20,785)	(12,950)
Interest expense, net	<u>5,979</u>	<u>5,622</u>
Loss before income taxes	(26,764)	(18,572)
Income tax provision (benefit)	<u>473</u>	<u>(7,107)</u>
Consolidated net loss	(27,237)	(11,465)
Less: Net income attributable to noncontrolling interests	<u>113</u>	<u>266</u>
Net loss attributable to Brookstone	<u><u>\$ (27,350)</u></u>	<u><u>\$ (11,731)</u></u>

*The accompanying notes are an integral part of these financial statements.*

**BROOKSTONE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)  
(Unaudited)

	<b>Thirteen weeks ended</b>	
	<b>April 4, 2009</b>	<b>March 29, 2008</b>
Cash flows from operating activities:		
Net loss attributable to Brookstone	\$ (27,350)	\$ (11,731)
Adjustments to reconcile net loss attributable to Brookstone to net cash used for operating activities:		
Net income attributable to noncontrolling interests	113	266
Depreciation and amortization	3,624	3,831
Amortization of debt issuance costs	534	533
Amortization of debt discount	70	71
Amortization of revaluation of leases	(36)	(28)
Loss on disposal of property, plant and equipment	143	494
Share-based compensation expense	189	43
Deferred income taxes, net	(410)	(7,184)
Changes in operating assets and liabilities:		
Accounts receivable, net	4,120	3,688
Merchandise inventories	12,170	12,585
Prepaid expenses	6,731	(5,647)
Other assets	57	61
Accounts payable	(7,221)	(22,006)
Other current liabilities	(10,858)	(26,387)
Other long-term liabilities	648	(348)
	(17,476)	(51,759)
Net cash used for operating activities		
Cash flows from investing activities:		
Expenditures for property and equipment	(1,158)	(1,713)
	(1,158)	(1,713)
Net cash used for investing activities		
Cash flows from financing activities:		
Payments on long-term debt and capital lease	(225)	(226)
Cash distributions to noncontrolling interests	-	(201)
	(225)	(427)
Net cash used for financing activities		
Net decrease in cash and cash equivalents	(18,859)	(53,899)
Cash and cash equivalents at beginning of period	22,530	70,857
Cash and cash equivalents at end of period	\$ 3,671	\$ 16,958

*The accompanying notes are an integral part of these financial statements.*

# BROOKSTONE, INC.

## Notes to Consolidated Financial Statements

### 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by Brookstone, Inc. (“we”, “our” “us” or “the Company”) in accordance with accounting principles generally accepted in the United States of America, which require us to make judgments, estimates and assumptions that affect the results of operations, financial position and cash flows, as well as the related footnote disclosures. We evaluate our estimates on an on-going basis using our historical experience as well as other factors we believe are appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effect cannot be determined with precision, actual results may differ from these estimates. In the opinion of Brookstone, Inc., these financial statements contain all adjustments (consisting of only normal recurring adjustments, except as specifically disclosed) necessary to present fairly the financial position, the results of operations, and the cash flows for the periods reported. Certain information and footnote disclosures normally included in annual financial statements presented in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, for purposes of the interim financial statements. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the Fiscal year ended January 3, 2009, which may be found in the Company’s Fiscal 2008 annual report on Form 10-K, as posted on the Company’s website at [www.brookstone.com](http://www.brookstone.com).

The results of the thirteen week period ended April 4, 2009 are not necessarily indicative of the results for the full fiscal year. The Company’s business, like the business of retailers in general, is subject to seasonal influences and fluctuations. Historically, the Company’s fourth fiscal quarter, which includes the winter holiday selling season, has produced a disproportionate amount of the Company’s net sales and substantially all of its income from operations. The Company expects that its business will continue to be subject to such seasonal influences.

Brookstone, Inc. is a privately held, indirect wholly-owned subsidiary of OSIM Brookstone Holdings, L.P. (“OBH L.P.”), the general partner of which is OSIM Brookstone Holdings, Inc. (“OBH GP”).

### 2. Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP requires disclosures about the fair value of financial instruments whenever a public company issues financial information for interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009. We do not expect this FSP to have a significant impact to our consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. SFAS No. 161 applies to all derivative instruments and related hedged items accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). SFAS No. 161 requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, results of operations and cash flows. SFAS No. 161 was effective for our Company on January 4, 2009. The adoption of SFAS No. 161 did not have a significant impact to our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin No. 51*. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests (previously referred to as minority interests) in subsidiaries. SFAS No. 160 requires that a noncontrolling interest in a subsidiary should be accounted for as a component of equity separate from the parent's equity, rather than as a liability. SFAS No. 160 was effective for our Company on January 4, 2009, and is being applied prospectively, except for the presentation and disclosure requirements, which have been applied retrospectively. The adoption of SFAS No. 160 altered the presentation of noncontrolling interests in our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. SFAS No. 141(R) amends the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) was effective for our Company on January 4, 2009, and the Company will apply SFAS No. 141(R) prospectively to all business combinations subsequent to the effective date. The adoption of SFAS No. 141(R) did not have a significant impact on our consolidated financial statements, and the impact that its adoption will have on our consolidated financial statements in future periods will depend on the nature and size of business combinations completed subsequent to the date of adoption.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 was effective for our Company on December 30, 2007. However, in February 2008, the FASB released FSP FAS 157-2 *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 became effective for all nonfinancial assets and nonfinancial liabilities for the Company on January 4, 2009. The adoption of SFAS No. 157 for our nonfinancial assets and nonfinancial liabilities did not have a significant impact on our consolidated financial statements.

### 3. Comprehensive Loss

Comprehensive loss consists of net loss, amortization of certain pension and post-retirement liability adjustments and for the three months ended March 29, 2008, the unrealized loss on the cash flow hedge related to the Company's variable rate debt. Total comprehensive loss for the thirteen week periods ended April 4, 2009 and March 29, 2008 is presented below (in thousands):

	Thirteen weeks ended	
	April 4, 2009	March 29, 2008
Net loss attributed to Brookstone	\$ (27,350)	\$ (11,731)
Other comprehensive loss:		
Amortization of certain pension /post-retirement liability adjustments (net of tax effect of \$0 and \$(6), respectively)	5	(9)
Unrealized loss on cash flow hedge (net of tax effect of \$0 and \$(31), respectively)	-	(50)
Total comprehensive loss	<u>\$ (27,345)</u>	<u>\$ (11,790)</u>

### 4. Shareholder's Equity

#### *Share-Based Compensation*

The Company accounts for share-based awards under SFAS No. 123(R), which requires measurement of compensation cost for all share-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest.

Certain members of the Company's management hold Class B limited partnership interests in OBH LP ("Class "B" Interests"). These interests are restricted awards that vest either ratably over five years or require certain financial returns be met. Management has determined that these awards should be accounted for under push down accounting. The fair value of restricted awards granted, are estimated at the date of grant using a Black-Scholes option-pricing model. There were no grants of restricted awards during the first quarter of 2008 or 2009.

The Company recognizes compensation expense, net of an estimated forfeiture rate, on a straight-line basis over the requisite service period of the award. The estimated forfeiture rate is based on historical experience. Under the provisions of SFAS No. 123(R), expense is recognized only for those awards expected to fully vest. If actual forfeitures differ from the estimates, a revision to the forfeiture rate will be necessary.

The Company recognized compensation expense of \$189 and \$208 thousand for the thirteen week periods ended April 4, 2009 and March 29, 2008, respectively, related to the Class B Interests, which are classified in Selling, General and Administrative expenses. There was no related income tax effect. At April 4, 2009, the Company had approximately \$2.1 million of Class B Interests to be expensed over the period through May 2012.

Under the terms of his succession agreement, the former Chief Executive Officer of the Company retains a “Put Right”, whereby he has the right to require OBH LP to pay him, in exchange for him relinquishing his Class A limited partnership interests of OBH LP purchased in April 2006, a “Put Price” determined as provided therein during the thirty (30) day period following April 18, 2011. As of April 4, 2009, January 3, 2009 and March 29, 2008, the Company recorded an “other long-term liability” of \$0, \$0 and approximately \$1.1 million in conjunction with this Put Right, respectively. There was no compensation expense for the thirteen week period ended April 4, 2009, and a reversal of approximately \$165 thousand of compensation expense was recognized for the thirteen week period ended March 29, 2008 in conjunction with this Put Right, which is classified in Selling, General and Administrative expenses.

## 5. Fair Value Measurements

Effective December 30, 2007 for financial assets and liabilities and January 4, 2009 for non-financial assets and liabilities, the Company adopted SFAS No. 157, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The financial assets and liabilities measured at fair value on a recurring basis are limited to the Company’s interest rate swap instrument (refer to Note 10 for further discussion). The Company’s non-financial assets and liabilities that are measured at fair value include any long-lived assets that are impaired in a current reported period. There were no such assets or liabilities in the current period.

SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the fair value and the hierarchy levels, for financial assets and liabilities that are measured at fair value on a recurring basis as of April 4, 2009 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets	\$ -	\$ -	\$ -
Liabilities:			
Derivative financial instruments	\$ -	\$ 150	\$ -

Derivative financial instruments consist of an interest rate swap for which fair value is determined through the use of a pricing model, which utilizes verifiable inputs such as market interest rates which are observable at commonly quoted intervals for the full term of the swap agreement.

## 6. Contingencies

We are involved in various legal proceedings incidental to the conduct of our business. We do not believe at this point that any of these legal proceedings will have a material adverse effect on our financial condition, results of operations,

or cash flows.

## 7. Segment Information

The Company operates in two reportable segments based on its two distinct distribution channels; retail and direct marketing. The retail segment is comprised of all full-year stores in addition to all temporary stores and kiosks. Retail product distribution is conducted primarily through the store locations. The direct marketing segment is comprised of the *Brookstone* catalog and products promoted via our internet website, [www.brookstone.com](http://www.brookstone.com) and sales to corporate and wholesale customers. Direct marketing product distribution is primarily conducted through the Company's direct marketing customer sales and contact center and distribution center located in Mexico, Missouri and by its vendors. Both segments of the Company sell similar products, although not all Company products are available through both segments.

All costs directly attributable to the direct marketing segment are charged to this segment while all remaining operating costs are charged to the retail segment. The Company's management does not review assets by segment, and it is impracticable for the Company to report revenues by product or to group similar products.

The tables below disclose segment net sales and pre-tax loss for the thirteen week periods ended April 4, 2009 and March 29, 2008 (in thousands).

	Net Sales		Income (Loss) Before Taxes	
	April 4, 2009	March 29, 2008	April 4, 2009	March 29, 2008
Reportable segment:				
Retail	\$ 51,385	\$ 73,015	\$ (20,701)	\$ (13,318)
Direct Marketing	10,075	16,786	(197)	102
Reconciling items:				
Interest expense	---	---	(5,983)	(6,063)
Interest income	---	---	4	441
Noncontrolling interests	---	---	113	266
Consolidated:	<u>\$ 61,460</u>	<u>\$ 89,801</u>	<u>\$ (26,764)</u>	<u>\$ (18,572)</u>

## 8. Joint Ventures and Variable Interest Entity

The Company enters into various joint venture arrangements to operate certain airport stores under separate agreements with respect to each city. As of April 4, 2009, the Company operated 11 airport store locations through seven separate joint venture agreements. All joint ventures have been consolidated since inception based on the Company's majority ownership interest and voting rights, with the exception of the Atlanta venture as discussed below.

Under the requirements of FASB Interpretation No. ("FIN") 46(R), *Consolidation of Variable Interest Entities-an Interpretation of ARB No. 51*, ("FIN 46(R)") as amended, variable interest entities are required to be consolidated if the total equity investment at risk is not sufficient to permit the entity to finance its activities without financial support or the equity investors lack certain specified characteristics of a controlling financial interest. While the Company has only a 49% ownership interest in the Atlanta venture, our voting rights represent 50% of the total voting rights based on the structure of the venture. This "disproportionate" relationship of ownership interests to the voting rights and the inability to unilaterally make decisions (without approval from the other party) are primary factors in determining the lack of a controlling financial interest, under FIN 46(R). As a result, the Company determined that the Atlanta joint venture qualifies as a Variable Interest Entity ("VIE"). Under FIN 46(R), an enterprise with a variable interest shall treat variable interests in that same entity held by its related parties as its own interests. The other party in the Atlanta venture qualifies as a related party since the other party received its interest in the venture through a loan from the venture. The party within this "related party group" that is most closely associated with the variable interest entity is considered the primary beneficiary. The Company determined that we are the primary beneficiary of the VIE and as a result are required to consolidate the VIE based on certain qualitative criteria such as, a principal/agency relationship existing between the parties with Brookstone qualifying as the principal, and the VIE's operations, products and

design all being derived from Brookstone. The Company consolidated this entity effective for the first Fiscal quarter of 2004, which was the Company's first interim or annual reporting period ending after March 15, 2004, as required by this interpretation.

At April 4, 2009, January 3, 2009 and March 29, 2008, the following amounts were consolidated in the Company's balance sheet related to the Atlanta venture:

	<u>April 4, 2009</u>	<u>January 3, 2009</u>	<u>March 29, 2008</u>
Assets	\$ 8,000	\$ 20,000	\$ 78,000
Liabilities	-	-	-
Noncontrolling interests	150,000	94,000	215,000

## 9. Retirement Plans

The Company sponsors both a defined benefit Pension Plan and a Postretirement Medical Benefit Plan. The Company estimates that contributions expected to be paid to the retirement plans during Fiscal 2009 are approximately \$127,000 for the Pension Plan and \$55,000 for the Postretirement Benefit Plan.

The components of net periodic benefit cost for the Pension Plan were as follows:

	<u>Thirteen weeks ended</u>	
	<u>April 4, 2009</u>	<u>March 29, 2008</u>
Service cost	\$ 31,000	\$ 32,000
Interest cost	83,000	82,000
Expected return on plan assets	(66,000)	(96,000)
Amortization of actuarial gain	7,000	(4,000)
Net periodic benefit cost	<u>\$ 55,000</u>	<u>\$ 14,000</u>

The components of net periodic benefit cost for the Postretirement Medical Benefit Plan were as follows:

	<u>Thirteen weeks ended</u>	
	<u>April 4, 2009</u>	<u>March 29, 2008</u>
Service cost	\$ ---	\$ ---
Interest cost	9,000	9,000
Amortization of prior service cost	(9,000)	(9,000)
Amortization of actuarial gain	(2,000)	(2,000)
Net periodic benefit cost	<u>\$ (2,000)</u>	<u>\$ (2,000)</u>

## 10. Debt

As of April 4, 2009, the Company had outstanding \$170 million in 12.0% Second Lien Senior Secured Notes due October 15, 2012. These notes bear interest at 12% per annum payable in semi-annual installments on April 15 and October 15 of each year.

The Company maintains a senior secured credit facility which provides up to \$125 million in available revolving borrowings subject to a borrowing base limitation and includes a letter of credit subfacility, a swingline subfacility and a stretch loan subfacility providing for increased advance rates on the borrowing base assets.

The Company expects 2009 to be a challenging year due to the current conditions of the U.S. economy that have negatively impacted both consumer spending and traffic in retail malls across the country. As a result of these negative economic trends, the Company will become increasingly dependent on its senior secured credit facility in order to fund operations and finance our seasonal merchandise inventory build-up which has historically been during the third and fourth quarters.

Our borrowing base calculation is based on advance rates of eligible inventory and receivables. These advance rates

vary during the course of the year and provide for increased availability during the Company's peak inventory purchasing season (third and fourth quarters).

The Company anticipates that peak usage of its availability under the senior secured credit facility will occur during the earlier part of the fourth quarter. The Company believes that it will have adequate availability to fund operations through 2009. Additionally, the Company's Board of Directors has approved certain initiatives, such as further payroll, professional services and catalog reductions in order to provide added liquidity, if necessary.

Based on the foregoing, the Company believes its cash balances, cash funds expected to be generated by future operations, borrowing capacity and potential cost saving measures, if necessary, will be sufficient to fund operations through Fiscal 2009.

Borrowings under the senior secured credit facility bear interest at a rate equal to the sum of LIBOR (London Interbank Offer Rate) plus the applicable margin or, at our option, the alternate base rate (which will be the higher of (x) the Bank of America, N.A. prime rate and (y) the federal funds rate plus 0.50%) plus the applicable margin. The applicable margin (other than with respect to the stretch loan subfacility) is adjusted from time to time in accordance with a pricing grid based on our average availability during the preceding fiscal quarter in excess of outstanding loans and extensions of credit under our senior secured credit facility. At April 4, 2009, the applicable margin, as amended, ranges from 1.00% to 1.50% per annum in the case of LIBOR rate advances (or in the case of the stretch loan subfacility, 4.0% per annum) and 0.00% per annum in the case of alternate base rate advances (or in the case of the stretch loan subfacility, 2.75% per annum). The default rate on our senior secured credit facility is 2% above the otherwise applicable interest rate.

The Company has a real estate loan on its headquarters facility and has a capital lease obligation on its Mexico, Missouri distribution center.

As of April 4, 2009, January 3, 2009 and March 29, 2008, the Company was in compliance with all related debt covenants and had no cash borrowings outstanding under its senior secured credit facility.

#### *Derivative Financial Instruments*

In order to minimize the risk of exposure related to variations in cash flows over the life of the financing on its headquarters facility, in August 2004, the Company entered into a \$4.0 million, 10-year interest rate swap agreement under which the Company receives one-month LIBOR plus 1.00% and pays a 5.67% fixed rate. The swap modifies the Company's interest rate exposure by effectively converting 50% of the real estate loan from a variable rate to a fixed rate in order to hedge against the possibility of rising interest rates during the term of the loan. While the swap agreement serves as an economic hedge, it does not qualify as an accounting hedge under SFAS No. 133. The fair value of the swap, as of April 4, 2009, January 3, 2009 and March 29, 2008 was approximately \$(150,000), \$(166,000) and \$(126,000), respectively, and was included in other long-term liabilities. Changes in the fair value of the swap are recorded in interest expense. See Note 5 for additional disclosure on fair value measurements.

## **11. Income Taxes**

In the first quarter of Fiscal 2009, the Company recorded an income tax provision of \$0.5 million, as compared to an income tax benefit of \$7.1 million in the first quarter of Fiscal 2008. The effective tax rate was (1.8)% in the first quarter of 2009 as compared to 38.3% for the first quarter of 2008. The tax provision recorded in the first quarter of 2009, relates to amounts due in various states in which the Company has generated income, and an adjustment of certain estimates included in the reserve for uncertain tax positions. In addition, the Company recorded a valuation allowance of approximately \$6.7 million against the deferred tax assets generated in the first quarter of 2009.

## 12. Condensed Consolidating Financial Information

The following condensed consolidating financial information presents (1) Brookstone, Inc., the parent and a guarantor of the 12% Second Lien Senior Secured notes due 2012 (the “notes”), (2) Brookstone Company, Inc., the issuer of the notes, (3) Brookstone, Inc.’s guarantor subsidiaries of the notes (all of which are wholly-owned subsidiaries of Brookstone, Inc.) and (4) Brookstone, Inc.’s non-guarantor, non-wholly owned subsidiaries. Separate financial statements of the parent and guarantor subsidiaries are not presented because they are jointly, severally, fully and unconditionally liable under the guarantees. The investments in subsidiaries are accounted for under the equity basis of accounting.

Included in other expenses are revenues and expenses from management and royalty agreements among Brookstone, Inc. and its subsidiaries, which are eliminated in consolidation.

Brookstone, Inc.  
Consolidated Condensed Balance Sheet  
April 4, 2009  
(in thousands)  
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ -	\$ 3,480	\$ 184	\$ 7	\$ -	\$ 3,671
Receivables, net	-	3,662	2,074	100	(100)	5,736
Merchandise inventories	-	11,401	58,217	157	150	69,925
Deferred income taxes, net	-	-	-	-	-	-
Prepaid expenses	-	7,389	2,259	-	-	9,648
<b>Total current assets</b>	<b>-</b>	<b>25,932</b>	<b>62,734</b>	<b>264</b>	<b>50</b>	<b>88,980</b>
Property, plant and equipment, net	-	15,799	46,637	1,411	-	63,847
Intangible assets, net	-	105,000	-	-	-	105,000
Goodwill	-	99,734	-	-	-	99,734
Other assets	90,291	100,596	(8,939)	2,580	(176,705)	7,823
<b>Total assets</b>	<b>\$ 90,291</b>	<b>\$ 347,061</b>	<b>\$ 100,432</b>	<b>\$ 4,255</b>	<b>\$ (176,655)</b>	<b>\$ 365,384</b>
<b>Liabilities and Equity</b>						
<b>Current liabilities:</b>						
Accounts payable	\$ -	\$ 9,812	\$ -	\$ -	-	\$ 9,812
Other current liabilities	-	24,469	5,852	100	(100)	30,321
<b>Total current liabilities</b>	<b>-</b>	<b>34,281</b>	<b>5,852</b>	<b>100</b>	<b>(100)</b>	<b>40,133</b>
Other long term liabilities	-	11,583	77,075	-	(66,822)	21,836
Long term debt	-	172,476	1,458	-	-	173,934
Deferred income taxes	-	38,430	(410)	-	-	38,020
<b>Total liabilities</b>	<b>-</b>	<b>256,770</b>	<b>83,975</b>	<b>100</b>	<b>(66,922)</b>	<b>273,923</b>
<b>Total equity</b>	<b>90,291</b>	<b>90,291</b>	<b>16,457</b>	<b>4,155</b>	<b>(109,733)</b>	<b>91,461</b>
<b>Total liabilities and equity</b>	<b>\$ 90,291</b>	<b>\$ 347,061</b>	<b>\$ 100,432</b>	<b>\$ 4,255</b>	<b>\$ (176,655)</b>	<b>\$ 365,384</b>

Brookstone, Inc.  
Consolidated Condensed Balance Sheet  
January 3, 2009  
(in thousands)

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets						
Current assets:						
Cash and cash equivalents	\$ -	\$ 22,005	\$ 518	\$ 7	\$ -	\$ 22,530
Receivables, net	-	4,494	5,345	83	(83)	9,839
Merchandise inventories	-	12,151	69,456	166	322	82,095
Prepaid expenses	-	8,604	7,775	-	-	16,379
Total current assets	-	47,254	83,094	256	239	130,843
Property, plant and equipment, net	-	16,500	48,508	1,448	-	66,456
Intangible assets, net	-	105,000	-	-	-	105,000
Goodwill	-	99,734	-	-	-	99,734
Other assets	117,457	118,661	(8,242)	2,139	(221,450)	8,565
Total assets	<u>\$ 117,457</u>	<u>\$ 387,149</u>	<u>\$ 123,360</u>	<u>\$ 3,843</u>	<u>\$ (221,211)</u>	<u>\$ 410,598</u>
Liabilities and Equity						
Current liabilities:						
Accounts payable	\$ -	\$ 17,033	\$ -	\$ -	\$ -	\$ 17,033
Other current liabilities	-	23,094	18,085	83	(83)	41,179
Total current liabilities	-	40,127	18,085	83	(83)	58,212
Other long term liabilities	-	10,674	70,819	-	(60,123)	21,370
Long term debt	-	172,605	1,484	-	-	174,089
Deferred income taxes	-	46,286	(7,856)	-	-	38,430
Total liabilities	-	269,692	82,532	83	(60,206)	292,101
Total equity	117,457	117,457	40,828	3,760	(161,005)	118,497
Total liabilities and equity	<u>\$ 117,457</u>	<u>\$ 387,149</u>	<u>\$ 123,360</u>	<u>\$ 3,843</u>	<u>\$ (221,211)</u>	<u>\$ 410,598</u>

Brookstone, Inc.  
Consolidated Condensed Balance Sheet  
March 29, 2008  
(in thousands)  
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ -	\$ 16,696	\$ 256	\$ 6	\$ -	\$ 16,958
Receivables, net	-	4,745	4,385	45	(45)	9,130
Merchandise inventories	-	15,080	78,372	164	199	93,815
Deferred income taxes, net	-	7,450	3,938	-	-	11,388
Prepaid expenses	-	1,652	8,015	-	-	9,667
<b>Total current assets</b>	<b>-</b>	<b>45,623</b>	<b>94,966</b>	<b>215</b>	<b>154</b>	<b>140,958</b>
Property, plant and equipment, net	-	17,354	51,216	811	-	69,381
Intangible assets, net	-	129,333	-	-	-	129,333
Goodwill	-	189,524	-	-	-	189,524
Other assets	254,477	135,614	(1,810)	3,705	(380,941)	11,045
<b>Total assets</b>	<b>\$ 254,477</b>	<b>\$ 517,448</b>	<b>\$ 144,372</b>	<b>\$ 4,731</b>	<b>\$ (380,787)</b>	<b>\$ 540,241</b>
<b>Liabilities and Shareholder's Equity</b>						
<b>Current liabilities:</b>						
Accounts payable	\$ -	\$ 11,501	\$ -	\$ -	\$ -	\$ 11,501
Other current liabilities	-	21,638	13,189	45	(45)	34,827
<b>Total current liabilities</b>	<b>-</b>	<b>33,139</b>	<b>13,189</b>	<b>45</b>	<b>(45)</b>	<b>46,328</b>
Other long term liabilities	-	9,592	66,897	-	(55,992)	20,497
Long term debt	-	173,059	1,563	-	-	174,622
Deferred income taxes	-	47,181	(4,180)	-	-	43,001
<b>Total liabilities</b>	<b>-</b>	<b>262,971</b>	<b>77,469</b>	<b>45</b>	<b>(56,037)</b>	<b>284,448</b>
<b>Total equity</b>	<b>254,477</b>	<b>254,477</b>	<b>66,903</b>	<b>4,686</b>	<b>(324,750)</b>	<b>255,793</b>
<b>Total liabilities and equity</b>	<b>\$ 254,477</b>	<b>\$ 517,448</b>	<b>\$ 144,372</b>	<b>\$ 4,731</b>	<b>\$ (380,787)</b>	<b>\$ 540,241</b>

Brookstone, Inc.  
Condensed Consolidating Statement of Operations  
For the thirteen weeks ended April 4, 2009  
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor	Eliminations	Consolidated
Net sales	\$ ---	\$ 7,788	\$ 51,772	\$ 2,988	\$ (1,088)	\$ 61,460
Cost of sales	---	6,207	48,010	1,763	(1,088)	54,892
Gross profit	---	1,581	3,762	1,225	---	6,568
Selling, general and administrative expenses	---	6,082	20,370	901	---	27,353
Other expenses (income)	---	(8,309)	8,309	---	---	---
Income (loss) from operations	---	3,808	(24,917)	324	---	(20,785)
Interest expense, net	---	5,854	121	4	---	5,979
Income (loss) before taxes	---	(2,046)	(25,038)	320	---	(26,764)
Income tax provision (benefit)	---	883	(410)	---	---	473
Consolidated net loss		(2,929)	(24,628)	320	---	(27,237)
Less: Net income attributable to noncontrolling interests	---	---	---	---	113	113
Equity income in subsidiaries, net of tax	(27,350)	(24,421)	207	---	51,564	---
Net income (loss) attributable to Brookstone	\$ (27,350)	\$ (27,350)	\$ (24,421)	\$ 320	\$ 51,451	\$ (27,350)

Brookstone, Inc.  
Condensed Consolidating Statement of Operations  
For the thirteen weeks ended March 29, 2008  
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor	Eliminations	Consolidated
Net sales	\$ ---	\$ 12,042	\$ 73,829	\$ 3,779	\$ 151	\$ 89,801
Cost of sales	---	9,442	56,299	2,124	151	68,016
Gross profit	---	2,600	17,530	1,655	---	21,785
Selling, general and administrative expenses	---	6,404	27,381	950	---	34,735
Other expenses (income)	---	(8,187)	8,187	---	---	---
Income (loss) from continuing operations	---	4,383	(18,038)	705	---	(12,950)
Interest expense, net	---	5,490	129	3	---	5,622
Income (loss) before taxes	---	(1,107)	(18,167)	702	---	(18,572)
Income tax provision (benefit)	---	(423)	(6,684)	---	---	(7,107)
Consolidated net loss	---	(684)	(11,483)	702	---	(11,465)
Less: Net income attributable to noncontrolling interests	---	---	---	---	266	266
Equity income in subsidiaries, net of tax	(11,731)	(11,047)	436	---	22,342	---
Net income (loss) attributable to Brookstone	\$ (11,731)	\$ (11,731)	\$ (11,047)	\$ 702	\$ 22,076	\$ (11,731)

Brookstone, Inc.  
Condensed Consolidating Statement of Cash Flows  
For the thirteen weeks ended April 4, 2009  
(In thousands)  
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss) attributable to Brookstone	\$ (27,350)	\$ (27,350)	\$ (24,421)	\$ 320	\$ 51,451	\$ (27,350)
Adjustments to reconcile net income (loss) attributable to Brookstone to net cash used for operating activities:						
Net income attributable to noncontrolling interests	---	---	---	---	113	113
Depreciation and amortization	---	675	2,838	111	---	3,624
Amortization of debt issuance costs	---	534	---	---	---	534
Amortization of debt discount	---	70	---	---	---	70
Amortization of revaluation of leases	---	(3)	(33)	---	---	(36)
Loss on disposal of property, plant and equipment	---	---	143	---	---	143
Share-based compensation expense	---	189	---	---	---	189
Deferred income taxes, net	---	(7,856)	7,446	---	---	(410)
Equity income in subsidiary	27,350	24,421	(207)	---	(51,564)	---
Changes in operating assets and liabilities:						
Accounts receivable, net	---	832	3,271	---	17	4,120
Merchandise inventories	---	750	11,239	9	172	12,170
Prepaid expenses	---	1,215	5,516	---	---	6,731
Other assets	---	(6,905)	818	(383)	6,527	57
Accounts payable	---	(7,221)	---	---	---	(7,221)
Other current liabilities	---	1,375	(12,233)	17	(17)	(10,858)
Other long-term liabilities	---	923	6,424	---	(6,699)	648
Net cash provided by (used for) operating activities	---	(18,351)	801	74	---	(17,476)
Cash flows from investing activities:						
Expenditures for property, plant and equipment	---	26	(1,110)	(74)	---	(1,158)
Net cash (used for) provided by investing activities	---	26	(1,110)	(74)	---	(1,158)
Cash flows from financing activities:						
Payments on long-term debt and capital lease	---	(200)	(25)	---	---	(225)
Net cash used for financing activities	---	(200)	(25)	---	---	(225)
Net decrease in cash and cash equivalents	---	(18,525)	(334)	---	---	(18,859)
Cash and cash equivalents at beginning of period	---	22,005	518	7	---	22,530
Cash and cash equivalents at end of period	\$ ---	\$ 3,480	\$ 184	\$ 7	\$ ---	\$ 3,671

Brookstone, Inc.  
Condensed Consolidating Statement of Cash Flows  
For the thirteen weeks ended March 29, 2008  
(In thousands)  
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss) attributable to Brookstone	\$ (11,731)	\$ (11,731)	\$ (11,047)	\$ 702	\$ 22,076	\$ (11,731)
Adjustments to reconcile net income (loss) attributable to Brookstone to net cash for operating activities:						
Net income attributable to noncontrolling interests	---	---	---	---	266	266
Depreciation and amortization	---	777	2,963	91	---	3,831
Amortization of debt issuance costs	---	533	---	---	---	533
Amortization of debt discount	---	71	---	---	---	71
Amortization of revaluation of leases	---	2	(30)	---	---	(28)
Loss on disposal of property, plant and equipment	---	11	483	---	---	494
Share-based compensation expense	---	43	---	---	---	43
Deferred income taxes, net	---	(7,196)	12	---	---	(7,184)
Equity income in subsidiary	11,731	11,047	(436)	---	(22,342)	---
Changes in assets and liabilities:						
Accounts receivable, net	---	(6)	307	3,342	45	3,688
Merchandise inventories	---	44	12,485	15	41	12,585
Prepaid expenses	---	(753)	(4,894)	---	---	(5,647)
Other assets	---	(11,282)	(15,825)	(3,988)	31,156	61
Accounts payable	---	(22,006)	---	---	---	(22,006)
Other current liabilities	---	(12,692)	(13,695)	45	(45)	(26,387)
Other long-term liabilities	---	(2)	30,851	---	(31,197)	(348)
Net cash provided by (used for) operating activities	---	(53,140)	1,174	207	---	(51,759)
Cash flows from investing activities:						
Expenditures for property, plant and equipment	---	(301)	(1,405)	(7)	---	(1,713)
Net cash used for investing activities	---	(301)	(1,405)	(7)	---	(1,713)
Cash flows from financing activities:						
Payments on long-term debt and capital lease	---	(200)	(26)	---	---	(226)
Cash distributions to noncontrolling interests	---	---	---	(201)	---	(201)
Net cash provided by (used for) financing activities	---	(200)	(26)	(201)	---	(427)
Net decrease in cash and cash equivalents	---	(53,641)	(257)	(1)	---	(53,899)
Cash and cash equivalents at beginning of period	---	70,337	513	7	---	70,857
Cash and cash equivalents at end of period	\$ ---	\$ 16,696	\$ 256	\$ 6	\$ ---	\$ 16,958

## ITEM 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

### Forward-Looking Statements

*This Quarterly Report on Form 10-Q and, in particular, this Management's Discussion and Analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Readers can identify these statements by forward-looking words such as "may," "could," "should," "would," "intend," "will," "expect," "anticipate," "believe," "estimate," "continue" or similar words. Readers should carefully review statements that contain these words because they discuss our future expectations, contain projections of our future results of operations or of our financial condition or state other "forward-looking" information. We caution investors that all such forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from any projected results or expectations that we discuss in this report. You should therefore carefully review the risk factors and uncertainties discussed in Item 1A of our most recent Annual Report on Form 10-K for Fiscal 2008, as posted to our web site at [www.brookstone.com](http://www.brookstone.com), as well as those factors that are otherwise described from time to time in Brookstone's reports posted on its website after this report. We undertake no obligation to update any forward-looking statements.*

### Overview

Founded in 1965, Brookstone is a leading nationwide specialty retailer. Our strategy is to develop unique, innovative, Brookstone-branded products, and to procure unique products from other sources, and offer them for sale to customers via our proprietary distribution channels, which consist of our retail stores, our internet website and our catalogs. Our products are intended to make some aspect of our customer's life easier, better, more enjoyable or more fun, qualities that we believe make our products particularly well suited for gift giving.

The Company operates in two reportable segments based on its two distinct distribution channels; Retail and Direct Marketing. The retail segment is comprised of all full-year stores in addition to all temporary stores and kiosks. Retail product distribution is conducted primarily through the store locations. The direct marketing segment is comprised of the *Brookstone* catalog and products promoted via our internet website, [www.brookstone.com](http://www.brookstone.com) and sales to corporate and wholesale customers. Direct Marketing product distribution is primarily conducted through the Company's distribution center located in Mexico, Missouri and by its vendors.

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide information to assist you in better understanding our business. We recommend that you read this MD&A in conjunction with the unaudited Consolidated Financial Statements and the accompanying notes to these statements and our Annual Report on Form 10-K for the fiscal year ended January 3, 2009. The purposes of this MD&A include providing to the reader the perspectives of management as we view the business and providing you with insights that are not necessarily obvious or clear from reading our Consolidated Financial Statements (including Notes) alone.

### Results of Operations

The Company's results of operations for the first quarter of 2009 were adversely impacted by the current conditions of the U.S. economy. The current economic trends have negatively impacted both consumer spending and traffic in retail malls across the country. It is unclear, to what extent, these conditions will persist and what overall impact they will have on future consumer spending, as compared to our expectations.

We responded to these economic conditions at the end of 2008 with a planned reduction of \$30 million in overall operating expenses for 2009, including a reduction of 15% in corporate headcount and a freeze on all discretionary capital spending. Additionally, we managed down our inventory levels by 25% during the current quarter of 2009 as compared to the first quarter of last year.

These actions have had a positive effect on managing our cash position. We ended the first quarter of 2009 with no cash borrowings and our cash balance of \$3.7 million was \$13.3 million below the first quarter of last year, while we started the fiscal year \$48.3 million below the 2008 beginning cash levels. In addition, we had approximately \$48.9 million of availability under our revolving credit facility, which is in place through October of 2010.

The Company has provided a statistical summary of its operating results, as described below. We have

incorporated information into the discussion below because we believe it will assist the reader in understanding the Company's results of operation on a comparative basis and in recognizing underlying trends.

	Thirteen weeks ended	
	April 4, 2009	March 29, 2008
Revenues, net		
Retail segment	83.6%	81.3%
Direct segment	16.4	18.7
Total revenues	<u>100.0</u>	<u>100.0</u>
Cost and expenses:		
Cost of sales	<u>89.3</u>	<u>75.7</u>
Gross profit	10.7	24.3
Selling, general and administrative expenses	<u>44.5</u>	<u>38.7</u>
Loss from operations	(33.8)	(14.4)
Interest expense, net	<u>9.7</u>	<u>6.3</u>
Loss before income taxes	(43.5)	(20.7)
Income tax provision (benefit)	<u>0.8</u>	<u>(7.9)</u>
Consolidated net loss	(44.3)	(12.8)
Less: Net income attributable to noncontrolling interests	<u>0.2</u>	<u>0.3</u>
Net loss attributable to Brookstone	<u>(44.5)%</u>	<u>(13.1)%</u>

For the thirteen week period ended April 4, 2009, net sales decreased 31.6% to \$61.5 million as compared to the first quarter of 2008. Same-store sales for the first quarter decreased 25.1% as compared to the first quarter of 2008.

The decrease in same store sales was largely driven by the weak current economic environment, which has negatively impacted both consumer spending and traffic in retail malls across the country.

For the thirteen week period ended April 4, 2009, net sales in the Retail segment decreased approximately \$21.6 million, or 29.6%, to \$51.4 million as compared to \$73.0 million for the first quarter of last year, primarily as a result of the same-store sales decrease, and sales reductions resulting from the closing of 15 stores, partially offset by the opening of 14 new stores, subsequent to the first quarter of 2008. The total number of Brookstone stores open on April 4, 2009 was 310 versus 311 on March 29, 2008.

For the thirteen week period ended April 4, 2009, direct marketing sales decreased approximately \$6.7 million, or 40.0%, to \$10.1 million as compared to \$16.8 million for the first quarter of last year, primarily due to decreases in revenue resulting from reduced consumer response and reduced catalog circulation.

For the thirteen week period ended April 4, 2009, gross profit as a percentage of net sales decreased 13.6% to 10.7% versus 24.3% for the first quarter of 2008, a result of an increase in occupancy costs as a percentage of net sales of 11.3% and a decrease in product margins as a percentage of net sales of 2.9%. Offsetting these increases was a decrease of 0.6% in order postage expense (costs associated with the delivery of products to customers). Occupancy costs as a percentage of net sales increased in the first quarter of 2009 primarily as a result of the decrease in sales, while the decrease in product margins as a percentage of sales was due to increased markdown activity and the mix of product sales in the first quarter of 2009.

For the thirteen week period ended April 4, 2009, selling, general and administrative expenses (SG&A) as a percentage of net sales increased 5.8% to 44.5% versus 38.7% for the first quarter of Fiscal 2008, primarily as a result of an increase in payroll as a percentage of net sales of 8.4%, offset by decreases in advertising as a percentage of sales of 2.2% and a decrease in general administrative costs as a percentage of net sales of 0.4%. While SG&A expenses increased as a percentage of net sales due to the overall decrease in sales, these expenses actually decreased approximately \$7.4 million as

compared to the first quarter of 2008 as a result of cost reductions that were implemented at the end of fiscal 2008.

As a result of the foregoing, the Company reported a loss from operations of \$20.8 million for the thirteen week period ended April 4, 2009, as compared to a loss from operations of \$13.0 million for the first quarter of 2008.

Net interest expense for the thirteen week period ended April 4, 2009 was \$6.0 million, compared to net interest expense of \$5.6 million for the first quarter of 2008. The increase is due primarily to reduced interest income in the current quarter as a result of the Company having less cash on hand available for investment.

For the thirteen week period ended April 4, 2009, the Company recorded an income tax provision of \$0.5 million, as compared to an income tax benefit of \$7.1 million in the first quarter of Fiscal 2008. The effective tax rate was (1.8)% in the first quarter of 2008 as compared to 38.3% for the first quarter of 2008. The tax provision recorded in the first quarter of 2009, relates to amounts due in various states in which the Company has generated income, and an adjustment of certain estimates included in the reserve for uncertain tax positions. In addition, the Company recorded a valuation allowance of approximately \$6.7 million against the deferred tax assets generated in the first quarter of 2009.

Overall, the Company reported a net loss attributable to Brookstone of \$27.4 million as compared to a net loss attributable to Brookstone of \$11.7 million for the thirteen week periods ended April 4, 2009 and March 29, 2008, respectively.

#### Financial Condition, Liquidity and Capital Resources

##### Cash flows for the thirteen week period ended April 4, 2009

For the thirteen week period ended April 4, 2009, the Company's cash position decreased \$18.9 million to \$3.7 million. Cash used for operations totaled \$17.5 million primarily as a result of payments for merchandise purchased during the winter holiday selling season, the Company's net loss from operations and a decrease in other current liabilities resulting primarily from the payment of sales taxes. These cash outflows were partially offset by a decrease in receivables, primarily as a result of payments received from fourth quarter sales on credit cards and to corporate customers, lower inventory levels due to reduced merchandise purchases during the first quarter of 2009 and the timing of prepaid expenses.

Cash of \$1.2 million was utilized to fund capital expenditures in the thirteen week period ended April 4, 2009 primarily related to the remodeling of two Brookstone stores and construction related to other stores anticipated to open or be remodeled in the fiscal year. In Fiscal 2009, the Company anticipates opening and remodeling a limited number of stores.

Net cash used for financing activities totaled approximately \$0.2 million in the thirteen week period ended April 4, 2009, reflecting payments on long-term debt.

##### Cash flows for the thirteen week period ended March 29, 2008

For the thirteen week period ended March 29, 2008, the Company's cash position decreased \$53.9 million to \$17.0 million. Cash used for operations totaled \$51.8 million primarily as a result of payments for merchandise purchased during the winter holiday selling season, the Company's net loss from operations, the timing of prepaid expenses and a decrease in other current liabilities resulting primarily from the payment of sales and income taxes. These cash outflows were partially offset by a decrease in receivables, primarily as a result of payments received from fourth quarter sales on credit cards and to corporate customers, and lower inventory levels due to reduced merchandise purchases during the first quarter of 2008.

Cash of \$1.7 million was utilized to fund capital expenditures in the thirteen week period ended March 29, 2008 primarily related to the opening of two new Brookstone stores and construction related to stores opened or remodeled in the fiscal year.

Net cash used for financing activities totaled approximately \$0.4 million in the thirteen week period ended March 29, 2008, reflecting payments on long-term debt and cash distributions to joint venture partners.

#### Outlook

The Company expects 2009 to be a challenging year due to the current conditions of the U.S. economy that have

negatively impacted both consumer spending and traffic in retail malls across the country. As a result of these negative economic trends, the Company will become increasingly dependent on its senior secured credit facility in order to fund operations and finance our seasonal merchandise inventory build-up which has historically been during the third and fourth quarters.

Our senior secured credit facility, which expires on October 4, 2010, provides us with up to \$125 million in available borrowings subject to a borrowing base limitation. Our borrowing base calculation is based on advance rates of eligible inventory and receivables. These advance rates vary during the course of the year and provide for increased availability during the Company's peak inventory purchasing season (third and fourth quarters). Our senior secured credit facility contains a minimum fixed charge coverage ratio covenant that will be triggered if availability under the senior secured credit facility falls below \$20 million.

The Company anticipates that peak usage of its availability under the senior secured credit facility will occur during the earlier part of the fourth quarter. The Company believes that it will have adequate availability to fund operations through 2009. Additionally, the Company's Board of Directors has approved certain initiatives, such as further payroll, professional services and catalog reductions in order to provide added liquidity, if necessary.

Based on the foregoing, the Company believes its cash balances, cash funds expected to be generated by future operations, borrowing capacity and potential cost saving measures, if necessary, will be sufficient to fund operations through Fiscal 2009.

#### Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP requires disclosures about the fair value of financial instruments whenever a public company issues financial information for interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009. We do not expect this FSP to have a significant impact to our consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. SFAS No. 161 applies to all derivative instruments and related hedged items accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). SFAS No. 161 requires entities to provide greater transparency about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. SFAS No. 161 was effective for our Company on January 4, 2009. The adoption of SFAS No. 161 did not have a significant impact to our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of Accounting Research Bulletin No. 51*. SFAS No. 160 establishes accounting and reporting standards for noncontrolling interests (previously referred to as minority interests) in subsidiaries. SFAS No. 160 requires that a noncontrolling interest in a subsidiary should be accounted for as a component of equity separate from the parent's equity, rather than as a liability. SFAS No. 160 was effective for our Company on January 4, 2009, and is being applied prospectively, except for the presentation and disclosure requirements, which have been applied retrospectively. The adoption of SFAS No. 160 altered the presentation of noncontrolling interests in our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*. SFAS No. 141(R) amends the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) was effective for our Company on January 4, 2009, and the Company will apply SFAS No. 141(R) prospectively to all business combinations subsequent to the effective date. The adoption of SFAS No. 141(R) did not have a significant impact on our consolidated financial statements, and the impact that its adoption will have on our consolidated financial statements in future periods will depend on the nature and size of business combinations completed subsequent to the date of adoption.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value,

establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 was effective for our Company on December 30, 2007. However, in February 2008, the FASB released FSP FAS 157-2 *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 became effective for all nonfinancial assets and nonfinancial liabilities for the Company on January 4, 2009. The adoption of SFAS No. 157 for our nonfinancial assets and nonfinancial liabilities did not have a significant impact on our consolidated financial statements.

### Critical Accounting Policies

The preparation of the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expense during the reporting periods. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 2 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended January 3, 2009, as posted on the Company's website at [www.brookstone.com](http://www.brookstone.com), describe the significant accounting policies and critical accounting estimates used in the preparation of the consolidated financial statements. The Company's management is required to make judgments and estimates about the effect of matters that are inherently uncertain. Actual results could differ from management's estimates. With the exception of our adoption of SFAS No. 160, which altered the presentation of noncontrolling interests in our consolidated financial statements, there have been no material changes to our application of critical accounting policies and significant judgments and estimates since January 3, 2009.

### **ITEM 3. *Quantitative and Qualitative Disclosures about Market Risk.***

The Company's primary market risk is its interest rate risk. The Company does not engage in trading activities and its foreign currency risk and commodity price risk is immaterial.

The Company's interest rate exposure is most sensitive to fluctuations in interest rates in the United States, which impact interest paid on its debt. A 10% change in the weighted average interest rate on the Company's variable rate debt would be immaterial to the Company's consolidated financial positions, results of operations and cash flows.

The Company's Fiscal 2008 annual report on Form 10-K, as posted on the Company's website at [www.brookstone.com](http://www.brookstone.com), also contains information about market risks under "Item 7A. Quantitative and Qualitative Disclosures About Market Risk." There have been no material changes in our exposure to market risks during the thirteen weeks ended April 4, 2009.

### **ITEM 4T. *Controls and Procedures.***

The Company carried out an evaluation, under the supervision and with the participation of the Company's Disclosure Committee and the Company's management, including the Interim Chief Executive Officer and the Vice President, Finance, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of April 4, 2009 pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based upon that evaluation, the Interim Chief Executive Officer and the Vice President, Finance, concluded that the Company's disclosure controls and procedures are effective. There have not been any changes in the Company's internal controls over financial reporting that have occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. *Legal Proceedings.***

We are involved in various legal proceedings incidental to the conduct of our business. We do not believe at this point that any of these legal proceedings will have a material adverse effect on our financial condition, results of operations, or cash flows.

**ITEM 1A.      *Risk Factors***

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A of our most recent Annual Report on Form 10-K for Fiscal 2008, as posted to our web site at [www.brookstone.com](http://www.brookstone.com). These and other risks could materially and adversely affect our business, results of operations or financial condition. There have been no material changes from the risk factors previously disclosed in our most recent Annual Report on Form 10-K.

**ITEM 2.            *Unregistered Sales of Equity Securities and Use of Proceeds.***

None.

**ITEM 3.            *Defaults Upon Senior Securities.***

None.

**ITEM 4.            *Submission of Matters to a Vote of Security Holders.***

None.

**ITEM 5.            *Other Information.***

None.

**ITEM 6.        *Exhibits.***

- 31.1        Certification of Principal Executive Officer in the Form Provided by Rule 15d-14 of the Securities Exchange Act of 1934 (filed herewith)
- 31.2        Certification of Principal Financial Officer in the Form Provided by Rule 15d-14 of the Securities Exchange Act of 1934 (filed herewith)
- 32.1        Certification of Interim Chief Executive Officer in the Form Provided by Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.2        Certification of Vice President, Finance in the Form Provided by Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

## Signatures

Pursuant to the requirements of the Indenture, dated as of October 4, 2005, among Brookstone, Inc., Brookstone Company, Inc., the Guarantors (as defined therein) and Wells Fargo Bank, N.A., as Trustee, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on May 18, 2009.

Brookstone, Inc.

/s/ Thomas F. Moynihan  
(Signature)

Thomas F. Moynihan  
Vice President, Finance  
(Principal Financial Officer  
and duly authorized to sign on behalf of the Company)

**Exhibit Index**

**Exhibit  
Number**

**Exhibit**

- |      |  |
|------|--|
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**Certification in the Form Provided by Rule 15d-14  
of the Securities Exchange Act of 1934**

I, Philip W. Roizin, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended April 4, 2009 of Brookstone, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 18, 2009

By: /s/ Philip W. Roizin  
Philip W. Roizin  
Interim President and Chief Executive Officer  
(Principal Executive Officer)

**Certification in the Form Provided by Rule 15d-14  
of the Securities Exchange Act of 1934**

I, Thomas F. Moynihan, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended April 4, 2009 of Brookstone, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: May 18, 2009

By: /s/ Thomas F. Moynihan  
Thomas F. Moynihan  
Vice President, Finance  
(Principal Financial Officer)

**CERTIFICATION IN THE FORM PROVIDED BY  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Interim President and Chief Executive Officer of Brookstone, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's Form 10-Q for the quarterly period ended April 4, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's Form 10-Q for the quarterly period ended April 4, 2009 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Philip W. Roizin

Philip W. Roizin  
Interim President and Chief Executive Officer

Dated: May 18, 2009

**CERTIFICATION IN THE FORM PROVIDED BY  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Vice President, Finance of Brookstone, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's Form 10-Q for the quarterly period ended April 4, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's Form 10-Q for the quarterly period ended April 4, 2009 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas F. Moynihan

Thomas F. Moynihan  
Vice President, Finance

Dated: May 18, 2009