
FORM 10-Q

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
June 28, 2008

BROOKSTONE, INC.

(Exact name of registrant as specified in its charter)

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

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

The registrant had one share of common stock, par value \$0.01, outstanding as of August 7, 2008.

Brookstone, Inc.
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PART I - FINANCIAL INFORMATION

ITEM 1. *Financial Statements*

BROOKSTONE, INC. CONSOLIDATED BALANCE SHEETS (In thousands, except share data)

	<u>June 28, 2008</u>	<u>December 29, 2007</u>	<u>June 30, 2007</u>
	(Unaudited)		(Unaudited)
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 1,566	\$ 70,857	\$ 11,937
Receivables, net	8,683	12,816	8,453
Merchandise inventories	92,122	106,400	99,570
Deferred income taxes, net	16,802	4,166	15,427
Prepaid expenses	11,071	4,020	10,295
Total current assets	130,244	198,259	145,682
Property, plant and equipment, net	70,363	71,918	70,170
Intangible assets, net	129,167	129,500	130,896
Goodwill	189,524	189,524	189,524
Other assets	10,257	11,834	13,836
Total assets	<u>\$ 529,555</u>	<u>\$ 601,035</u>	<u>\$ 550,108</u>
<u>Liabilities and Shareholder's Equity</u>			
Current liabilities:			
Accounts payable	\$ 14,947	\$ 33,599	\$ 17,986
Other current liabilities	29,983	61,214	33,694
Total current liabilities	44,930	94,813	51,680
Other long-term liabilities	19,934	21,137	21,664
Long-term debt, net of current portion	174,466	174,777	189,955
Deferred income taxes	43,052	42,999	44,550
Commitments and contingencies (See Note 7)			
Other party interests in consolidated entities	1,108	1,250	1,045
Shareholder's equity:			
Common Stock – \$0.01 par value 1,000 shares authorized, one share issued and outstanding	---	---	---
Additional paid-in capital	240,797	240,380	240,009
Accumulated other comprehensive income	575	593	174
Retained earnings	4,693	25,086	1,031
Total shareholder's equity	246,065	266,059	241,214
Total liabilities and shareholder's equity	<u>\$ 529,555</u>	<u>\$ 601,035</u>	<u>\$ 550,108</u>

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

BROOKSTONE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)
(Unaudited)

	Thirteen weeks ended		Twenty-six weeks ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net sales	\$ 97,390	\$ 99,925	\$ 187,191	\$ 183,065
Cost of sales	<u>70,876</u>	<u>71,362</u>	<u>138,892</u>	<u>135,502</u>
Gross profit	26,514	28,563	48,299	47,563
Selling, general and administrative expenses	<u>34,232</u>	<u>32,196</u>	<u>68,967</u>	<u>62,868</u>
Loss from operations	(7,718)	(3,633)	(20,668)	(15,305)
Interest expense, net	<u>5,902</u>	<u>6,235</u>	<u>11,524</u>	<u>12,166</u>
Loss before taxes, other party interests in consolidated entities and discontinued operations	(13,620)	(9,868)	(32,192)	(27,471)
Other party interests in consolidated entities	<u>370</u>	<u>379</u>	<u>636</u>	<u>686</u>
Loss before taxes and discontinued operations	(13,990)	(10,247)	(32,828)	(28,157)
Income tax benefit	(5,328)	(3,855)	(12,435)	(10,663)
Loss on discontinued operations, net of tax benefit	<u>-</u>	<u>(70)</u>	<u>-</u>	<u>(141)</u>
Net loss	<u>\$ (8,662)</u>	<u>\$ (6,462)</u>	<u>\$ (20,393)</u>	<u>\$ (17,635)</u>

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

BROOKSTONE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Twenty-six weeks ended	
	June 28, 2008	June 30, 2007
Cash flows from operating activities:		
Net loss	\$ (20,393)	\$ (17,635)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	7,685	7,691
Amortization of debt issuance costs	1,068	1,131
Amortization of debt discount	141	154
Amortization of revaluation of leases	(29)	(102)
Loss on disposal of property, plant and equipment	572	---
Share-based compensation expense	(214)	559
Other party interests in consolidated entities	636	686
Deferred income taxes, net	(12,572)	(11,558)
Changes in operating assets and liabilities:		
Accounts receivable, net	4,267	4,018
Merchandise inventories	14,278	(4,317)
Prepaid expenses	(7,051)	(262)
Other assets	119	(1,810)
Accounts payable	(18,560)	(5,424)
Other current liabilities	(31,231)	(20,718)
Other long-term liabilities	(182)	785
	(61,466)	(46,802)
Net cash used for operating activities		
Cash flows from investing activities:		
Expenditures for property, plant and equipment, net	(6,461)	(4,765)
	(6,461)	(4,765)
Net cash used for investing activities		
Cash flows from financing activities:		
Payments on long-term debt and capital lease	(452)	(452)
Repurchase of equity interest	---	(2,028)
Cash distributions to parent company	---	(5,000)
Capital contributions by joint venture partners	253	---
Cash distributions to joint venture partners	(1,165)	(754)
	(1,364)	(8,234)
Net cash used for financing activities		
Net decrease in cash and cash equivalents	(69,291)	(59,801)
Cash and cash equivalents at beginning of period	70,857	71,738
Cash and cash equivalents at end of period	\$ 1,566	\$ 11,937

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 in accordance with accounting principles generally accepted in the United States of America. In the opinion of Brookstone, Inc. (“we”, “our” or “the Company”), 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. It is suggested that the accompanying unaudited consolidated financial statements be read in conjunction with the annual financial statements and notes thereto which may be found in the Company’s Fiscal 2007 annual report on Form 10-K, as posted on the Company’s website at www.brookstone.com.

The results of the thirteen and twenty-six week periods ended June 28, 2008 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.

Certain amounts in the financial statements of the prior period have been reclassified for comparative purposes.

2. Recent Accounting Pronouncements

In March 2008, the FASB issued 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 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged, as are comparative disclosures for earlier periods, but neither are required. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 161 would have on its financial statement disclosures.

In December 2007, the FASB issued Statement 133 Implementation Issue No. 23, *Hedging – General: Issues Involving the Application of the Shortcut Method under Paragraph 68* (“Issue No. 23”). Issue No. 23 amends the accounting and reporting standards of FASB Statement No. 133, paragraph 68 regarding the application of the shortcut method in hedge accounting. Issue No. 23 is effective for hedging relationships designated on or after January 1, 2008 and requires that all pre-existing hedging relationships be evaluated to determine if they met the amended requirements at the inception of the hedging relationship. For any hedging relationships that do not qualify under the amended requirements, an entity must de-designate that hedging relationship prospectively. The Company adopted Issue No. 23 as of the beginning of Fiscal 2008, and as a result, the Company has de-designated the interest rate swap as a hedging instrument in accordance with the amended requirements. The de-designation of the interest rate swap as a hedging instrument did not have a material effect on the financial position or results of operations of the Company.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51*. SFAS No. 141(R) will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 141(R) and SFAS No. 160 are effective for fiscal years

beginning after December 15, 2008. Early adoption is not permitted. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 141(R) and SFAS No. 160 would have on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 provides a common fair value hierarchy for companies to follow in determining fair value measurements in the preparation of financial statements and expands disclosure requirements relating to how such fair value measurements were developed. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that the marketplace would use when pricing an asset or liability, rather than company-specific data. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued Staff Position 157-2 which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within its scope, this Staff Position defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008. The Company does not believe that the adoption of SFAS No. 157 for its non-financial assets and liabilities, effective January 4, 2009, will have a material impact to the consolidated financial statements. The Company adopted SFAS No. 157 effective December 30, 2007 for its financial assets and liabilities and this adoption did not have a material impact to the consolidated financial statements (See Note 6).

3. Discontinued Operations

On June 29, 2005, the Company announced its decision to sell its Gardeners Eden business and has reclassified those operations as discontinued operations in the consolidated statements of operations in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (“SFAS No. 144”). In January 2008, the Company closed the one remaining Gardeners Eden location in conjunction with the termination of the lease. For the thirteen week period ended June 30, 2007, Gardeners Eden operations resulted in a net loss of \$70 thousand (net of tax benefit of \$39 thousand). For the twenty-six week period ended June 30, 2007, Gardeners Eden operations resulted in a net loss of \$141 thousand (net of tax benefit of \$79 thousand). Continuing cash flows through the termination of the lease, were not significant when compared to the expected cash flows of the Gardeners Eden business, had the business not been discontinued.

4. Comprehensive Loss

Comprehensive loss consists of net loss, amortization of certain pension and post-retirement liability adjustments and unrealized loss on the cash flow hedge related to the Company’s variable rate debt. Total comprehensive loss for the thirteen and twenty-six week periods ended June 28, 2008 and June 30, 2007 is presented below (in thousands):

	Thirteen weeks ended		Twenty-six weeks ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net loss	\$ (8,662)	\$ (6,462)	\$ (20,393)	\$ (17,635)
Other comprehensive loss:				
Amortization of certain pension /post-retirement liability adjustments (net of tax of \$(5), \$-, \$(11) and \$-, respectively)	(9)	-	(18)	-
Unrealized gain on cash flow hedge (net of tax of \$-, \$14, \$- and \$10, respectively) (See Note 2)	-	24	-	16
Total comprehensive loss	<u>\$ (8,671)</u>	<u>\$ (6,438)</u>	<u>\$ (20,411)</u>	<u>\$ (17,619)</u>

5. 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 during the twenty-six weeks ended June 30, 2007 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions (there were no grants of restricted awards during the twenty-six weeks ended June 28, 2008):

	<u>Thirteen and Twenty-six weeks ended</u> <u>June 30, 2007</u>
Expected stock price volatility	50.0%
Risk-free interest rate	4.86%
Expected life of awards	3.75 years
Dividend yield	---
Weighted-average grant date fair value	\$8.15

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 was 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 \$209 thousand and \$418 thousand for the thirteen and twenty-six week periods ending June 28, 2008 and \$138 thousand for the thirteen and twenty-six week periods ending June 30, 2007, respectively, related to the Class B Interests, which are classified in Selling, General and Administrative expenses. There was no related income tax effect. At June 28, 2008, the Company had approximately \$2.8 million of Class B Interests remaining to be expensed over the period through May 2012.

Under the terms of his employment agreement, the Chief Executive Officer of the Company has 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, a "Put Price" following the fifth anniversary of his employment commencement date. As of June 28, 2008, December 29, 2007 and June 30, 2007, the Company has recorded an "other long-term liability" of approximately \$672, \$1,303 and \$976 thousand, respectively, in conjunction with this Put Right. Approximately \$(467) thousand and \$(632) thousand of compensation expense (reversal) was recognized for the thirteen and twenty-six week periods ending June 28, 2008, respectively, and \$212 thousand and \$421 thousand of compensation expense was recognized for the thirteen and twenty-six week periods ending June 30, 2007, respectively, which is classified in Selling, General and Administrative expenses.

6. Fair Value Measurements

Effective December 30, 2007, 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. 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 June 28, 2008 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets	\$ -	\$ -	\$ -
Liabilities:			
Derivative financial instruments	\$ -	\$ 54	\$ -

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.

7. Contingencies

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

8. 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 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 income (loss) before taxes and discontinued operations for the thirteen and twenty-six week periods ended June 28, 2008 and June 30, 2007 (in thousands).

Thirteen weeks ended:

	Net Sales		Income (Loss) Before Taxes and Discontinued Operations	
	<u>June 28, 2008</u>	<u>June 30, 2007</u>	<u>June 28, 2008</u>	<u>June 30, 2007</u>
Reportable segment:				
Retail	\$ 77,314	\$ 79,060	\$ (9,781)	\$ (7,210)
Direct Marketing	20,076	20,865	1,693	3,198
Reconciling items:				
Interest expense	---	---	(6,014)	(6,559)
Interest income	---	---	112	324
Consolidated:	<u>\$ 97,390</u>	<u>\$ 99,925</u>	<u>\$ (13,990)</u>	<u>\$ (10,247)</u>

Twenty-six weeks ended:

	Net Sales		Income (Loss) Before Taxes and Discontinued Operations	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Reportable segment:				
Retail	\$ 150,329	\$ 149,477	\$ (23,099)	\$ (19,966)
Direct Marketing	36,862	33,588	1,795	3,975
Reconciling items:				
Interest expense	---	---	(12,077)	(13,180)
Interest income	---	---	553	1,014
Consolidated:	<u>\$ 187,191</u>	<u>\$ 183,065</u>	<u>\$ (32,828)</u>	<u>\$ (28,157)</u>

9. Joint Ventures

During the second quarter of 2008, the Company opened one airport store in New York City and one airport store in San Antonio under separate joint venture arrangements with respect to each city. In addition, two airport stores in Dallas Fort Worth, two airport stores in Las Vegas, two airport stores in Chicago and four airport stores in Atlanta operate under separate joint venture arrangements with respect to each city. The Company has an 80% ownership interest in the New York venture, a 78% ownership interest in the San Antonio venture, a 65% ownership interest in the Dallas Fort Worth venture, an 80% ownership interest in the Las Vegas venture, a 70% ownership interest in the Chicago venture and a 49% ownership interest in the Atlanta venture. All joint ventures have been consolidated since inception based on the Company's ownership of the majority voting interests, with the exception of the Atlanta venture.

Under the requirements of FASB Interpretation No. ("FIN") 46(R), *Consolidation of Variable Interest Entities-an Interpretation of ARB No. 51* ("FIN 46(R)"), 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. The Company determined that the Atlanta joint venture qualifies as a Variable Interest Entity ("VIE") and that the Company is the primary beneficiary of the VIE. 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.

10. 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 2008 will be up to \$100 thousand for the Pension Plan and \$66 thousand for the Postretirement Benefit Plan.

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Service cost	\$ 31,000	\$ 31,000	\$ 63,000	\$ 62,000
Interest cost	82,000	83,000	164,000	161,000
Expected return on plan assets	(96,000)	(100,000)	(192,000)	(178,000)
Amortization of actuarial gain	(4,000)	---	(8,000)	---
Net periodic benefit cost	<u>\$ 13,000</u>	<u>\$ 14,000</u>	<u>\$ 27,000</u>	<u>\$ 45,000</u>

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Service cost	\$ ---	\$ (3,000)	\$ ---	\$ 1,000
Interest cost	9,000	5,000	18,000	18,000
Amortization of prior service cost	(9,000)	(18,000)	(18,000)	(18,000)
Amortization of actuarial gain	(2,000)	---	(4,000)	---
Net periodic benefit (income) cost	\$ (2,000)	\$ (16,000)	\$ (4,000)	\$ 1,000

11. Debt

As of June 28, 2008, the Company has 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, as amended, 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.

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. Commencing with the first day of Fiscal year 2006, the applicable margin (other than with respect to the stretch loan subfacility) will be 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 June 28, 2008, 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 June 28, 2008, December 30, 2007 and June 30, 2007, the Company was in compliance with all related debt covenants and had no cash borrowings outstanding under its senior secured credit facility.

12. Income Taxes

For the thirteen week period ended June 28, 2008, the Company recorded an income tax benefit on continuing operations of \$5.3 million, as compared to an income tax benefit on continuing operations of \$3.9 million in the second quarter of Fiscal 2007. For the twenty-six week period the Company recorded an income tax benefit on continuing operations of \$12.4 million, as compared to an income tax benefit on continuing operations of \$10.7 million in Fiscal 2007. The effective tax rate on continuing operations was 38.0% and 37.6% for the thirteen-week period ended June 28, 2008 and June 30, 2007, respectively. The effective tax rate on continuing operations was 37.9% for the twenty-six week period ended June 28, 2008 and June 30, 2007, respectively.

13. 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.
Condensed Consolidating Balance Sheet
June 28, 2008
(In thousands)
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ ---	\$ 1,267	\$ 291	\$ 8	\$ ---	\$ 1,566
Receivables, net	---	4,835	3,848	178	(178)	8,683
Merchandise inventories	---	19,588	72,106	161	267	92,122
Deferred income taxes, net	---	12,864	3,938	---	---	16,802
Prepaid expenses	---	2,330	8,741	---	---	11,071
Total current assets	---	40,884	88,924	347	89	130,244
Property, plant and equipment, net	---	16,912	52,065	1,386	---	70,363
Intangible assets, net	---	129,167	---	---	---	129,167
Goodwill	---	189,524	---	---	---	189,524
Other assets	246,065	134,414	1,573	1,951	(373,746)	10,257
Total assets	<u>\$ 246,065</u>	<u>\$ 510,901</u>	<u>\$ 142,562</u>	<u>\$ 3,684</u>	<u>\$ (373,657)</u>	<u>\$ 529,555</u>
Liabilities and Shareholder’s Equity						
Current liabilities:						
Accounts payable	\$ ---	\$ 14,947	\$ ---	\$ ---	\$ ---	\$ 14,947
Other current liabilities	---	20,449	9,534	178	(178)	29,983
Total current liabilities	---	35,396	9,534	178	(178)	44,930
Other long-term liabilities	---	9,304	76,508	---	(65,878)	19,934
Long-term debt	---	172,930	1,536	---	---	174,466
Deferred income taxes	---	47,206	(4,154)	---	---	43,052
Commitments and contingencies						
Other party interests in consolidated entities	---	---	---	---	1,108	1,108
Total shareholder’s equity	246,065	246,065	59,138	3,506	(308,709)	246,065
Total liabilities and shareholder’s equity	<u>\$ 246,065</u>	<u>\$ 510,901</u>	<u>\$ 142,562</u>	<u>\$ 3,684</u>	<u>\$ (373,657)</u>	<u>\$ 529,555</u>

Brookstone, Inc.
Condensed Consolidating Balance Sheet
December 29, 2007
(in thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ -	\$ 70,337	\$ 513	\$ 7	\$ -	\$ 70,857
Receivables, net	-	4,739	8,077	-	-	12,816
Merchandise inventories	-	15,124	90,857	179	240	106,400
Deferred income taxes, net	-	254	3,912	-	-	4,166
Prepaid expenses	-	899	3,121	-	-	4,020
Total current assets	-	91,353	106,480	186	240	198,259
Property, plant and equipment, net	-	17,766	53,257	895	-	71,918
Intangible assets, net	-	129,500	-	-	-	129,500
Goodwill	-	189,524	-	-	-	189,524
Other assets	266,059	135,938	(21,288)	3,385	(372,260)	11,834
Total assets	\$ 266,059	\$ 564,081	\$ 138,449	\$ 4,466	\$ (372,020)	\$ 601,035
Liabilities and Shareholder's Equity						
Current liabilities:						
Accounts payable	\$ -	\$ 33,599	\$ -	\$ -	\$ -	\$ 33,599
Other current liabilities	-	34,330	26,884	-	-	61,214
Total current liabilities	-	67,929	26,884	-	-	94,813
Other long term liabilities	-	9,687	36,245	-	(24,795)	21,137
Long term debt	-	173,189	1,588	-	-	174,777
Deferred income taxes	-	47,217	(4,218)	-	-	42,999
Other party interests in consolidated entities	-	-	-	-	1,250	1,250
Total shareholder's equity	266,059	266,059	77,950	4,466	(348,475)	266,059
Total liability and shareholder's equity	\$ 266,059	\$ 564,081	\$ 138,449	\$ 4,466	\$ (372,020)	\$ 601,035

Brookstone, Inc.
Condensed Consolidating Balance Sheet
June 30, 2007
(In thousands)
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ ---	\$ 11,694	\$ 237	\$ 6	\$ ---	\$ 11,937
Receivables, net	---	3,973	4,480	6	(6)	8,453
Merchandise inventories	---	19,461	79,418	203	488	99,570
Deferred income taxes, net	---	11,475	3,952	---	---	15,427
Prepaid expenses	---	2,446	7,849	---	---	10,295
Total current assets	---	49,049	95,936	215	482	145,682
Property, plant and equipment, net	---	18,259	50,923	988	---	70,170
Intangible assets, net	---	130,896	---	---	---	130,896
Goodwill	---	189,524	---	---	---	189,524
Other assets	241,214	140,998	(32,239)	2,543	(338,680)	13,836
Total assets	\$241,214	\$528,726	\$ 114,620	\$ 3,746	\$ (338,198)	\$ 550,108
Liabilities and Shareholder's Equity						
Current liabilities:						
Accounts payable	\$ ---	\$ 17,986	\$ ---	\$ ---	\$ ---	\$ 17,986
Other current liabilities	---	23,868	9,826	6	(6)	33,694
Total current liabilities	---	41,854	9,826	6	(6)	51,680
Other long-term liabilities	---	10,069	52,383	---	(40,788)	21,664
Long-term debt	---	188,314	1,641	---	---	189,955
Deferred income taxes	---	47,275	(2,725)	---	---	44,550
Commitments and contingencies						
Other party interests in consolidated entities	---	---	---	---	1,045	1,045
Total shareholder's equity	241,214	241,214	53,495	3,740	(298,449)	241,214
Total liabilities and shareholder's equity	\$241,214	\$528,726	\$ 114,620	\$ 3,746	\$ (338,198)	\$ 550,108

Brookstone, Inc.
Condensed Consolidating Statement of Operations
For the thirteen-weeks ended June 28, 2008
(In thousands)
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ ---	\$ 12,390	\$ 80,822	\$ 4,463	\$ (285)	\$ 97,390
Cost of sales	---	9,596	59,248	2,317	(285)	70,876
Gross profit	---	2,794	21,574	2,146	---	26,514
Selling, general and administrative expenses	---	5,655	27,401	1,176	---	34,232
Other expenses (income)	---	(7,250)	7,250	---	---	---
Income (loss) from operations	---	4,389	(13,077)	970	---	(7,718)
Interest expense, net	---	5,804	95	3	---	5,902
Income (loss) before taxes, other party interests in consolidated entities and discontinued operations	---	(1,415)	(13,172)	967	---	(13,620)
Other party interests in consolidated entities	---	---	---	---	370	370
Income (loss) before taxes and discontinued operations	---	(1,415)	(13,172)	967	(370)	(13,990)
Income tax benefit	---	(518)	(4,810)	---	---	(5,328)
Equity income (loss) in subsidiaries, net of tax	(8,662)	(7,765)	597	---	15,830	---
Net income (loss)	\$ (8,662)	\$ (8,662)	\$ (7,765)	\$ 967	\$ 15,460	\$ (8,662)

Brookstone, Inc.
Condensed Consolidating Statement of Operations
For the twenty-six weeks ended June 28, 2008
(In thousands)
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ ---	\$ 24,432	\$ 154,651	\$ 8,242	\$ (134)	\$ 187,191
Cost of sales	---	19,038	115,547	4,441	(134)	138,892
Gross profit	---	5,394	39,104	3,801	---	48,299
Selling, general and administrative expenses	---	12,059	54,782	2,126	---	68,967
Other expenses (income)	---	(15,437)	15,437	---	---	---
Income (loss) from operations	---	8,772	(31,115)	1,675	---	(20,668)
Interest expense, net	---	11,294	224	6	---	11,524
Income (loss) before taxes, other party interests in consolidated entities and discontinued operations	---	(2,522)	(31,339)	1,669	---	(32,192)
Other party interests in consolidated entities	---	---	---	---	636	636
Income (loss) before taxes and discontinued operations	---	(2,522)	(31,339)	1,669	(636)	(32,828)
Income tax benefit	---	(941)	(11,494)	---	---	(12,435)
Equity income in subsidiaries, net of tax	(20,393)	(18,812)	1,033	---	38,172	---
Net income (loss)	\$ (20,393)	\$ (20,393)	\$ (18,812)	\$ 1,669	\$ 37,536	\$ (20,393)

Brookstone, Inc.
Condensed Consolidating Statement of Operations
For the thirteen-weeks ended June 30, 2007
(In thousands)
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ ---	\$ 13,066	\$ 82,250	\$ 4,384	\$ 225	\$ 99,925
Cost of sales	---	10,541	58,226	2,370	225	71,362
Gross profit	---	2,525	24,024	2,014	---	28,563
Selling, general and administrative expenses	---	6,443	24,715	1,038	---	32,196
Other expenses (income)	---	(8,620)	8,620	---	---	---
Income (loss) from operations	---	4,702	(9,311)	976	---	(3,633)
Interest expense, net	---	6,133	100	2	---	6,235
Income (loss) before taxes, other party interests in consolidated entities and discontinued operations	---	(1,431)	(9,411)	974	---	(9,868)
Other party interests in consolidated entities	---	---	---	---	379	379
Income (loss) before taxes and discontinued operations	---	(1,431)	(9,411)	974	(379)	(10,247)
Income tax benefit	---	(545)	(3,310)	---	---	(3,855)
Equity income (loss) in subsidiaries, net of tax	(6,462)	(5,576)	595	---	11,443	---
Loss on discontinued operations, net of tax benefit	---	---	(70)	---	---	(70)
Net income (loss)	\$ (6,462)	\$ (6,462)	\$ (5,576)	\$ 974	\$ 11,064	\$ (6,462)

Brookstone, Inc.
Condensed Consolidating Statement of Operations
For the twenty-six weeks ended June 30, 2007
(In thousands)
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	\$ ---	\$ 24,555	\$ 150,605	\$ 8,164	\$ (259)	\$ 183,065
Cost of sales	---	19,006	112,397	4,358	(259)	135,502
Gross profit	---	5,549	38,208	3,806	---	47,563
Selling, general and administrative expenses	---	13,576	47,276	2,016	---	62,868
Other expenses (income)	---	(17,967)	17,967	---	---	---
Income (loss) from operations	---	9,940	(27,035)	1,790	---	(15,305)
Interest expense, net	---	11,909	251	6	---	12,166
Income (loss) before taxes, other party interests in consolidated entities and discontinued operations	---	(1,969)	(27,286)	1,784	---	(27,471)
Other party interests in consolidated entities	---	---	---	---	686	686
Income (loss) before taxes and discontinued operations	---	(1,969)	(27,286)	1,784	(686)	(28,157)
Income tax benefit	---	(750)	(9,913)	---	---	(10,663)
Equity income in subsidiaries, net of tax	(17,635)	(16,416)	1,098	---	32,953	---
Loss on discontinued operations, net of tax benefit	---	---	(141)	---	---	(141)
Net income (loss)	\$ (17,635)	\$ (17,635)	\$ (16,416)	\$ 1,784	\$ 32,267	\$ (17,635)

Brookstone, Inc.
Condensed Consolidating Statement of Cash Flows
For the twenty-six weeks ended June 28, 2008
(In thousands)
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	\$ (20,393)	\$ (20,393)	\$ (18,812)	\$ 1,669	\$ 37,536	\$ (20,393)
Adjustments to reconcile net income (loss) to net cash used for operating activities:						
Depreciation and amortization	---	1,590	5,906	189	---	7,685
Amortization of debt issuance costs	---	1,068	---	---	---	1,068
Amortization of debt discount	---	141	---	---	---	141
Amortization of revaluation of leases	---	11	(40)	---	---	(29)
Loss on disposal of property, plant and equipment	---	11	561	---	---	572
Share-based compensation expense	---	(214)	---	---	---	(214)
Other party interests in consolidated entities	---	---	---	---	636	636
Deferred income taxes, net	---	(12,610)	38	---	---	(12,572)
Equity income in subsidiary	20,393	18,812	(1,033)	---	(38,172)	---
Changes in operating assets and liabilities:						
Accounts receivable, net	---	(96)	4,229	(44)	178	4,267
Merchandise inventories	---	(4,464)	18,751	18	(27)	14,278
Prepaid expenses	---	(1,431)	(5,620)	---	---	(7,051)
Other assets	---	(18,409)	(22,165)	(417)	41,110	119
Accounts payable	---	(18,560)	---	---	---	(18,560)
Other current liabilities	---	(13,881)	(17,350)	178	(178)	(31,231)
Other long-term liabilities	---	261	40,640	---	(41,083)	(182)
Net cash provided by (used for) operating activities	---	(68,164)	5,105	1,593	---	(61,466)
Cash flows from investing activities:						
Expenditures for property, plant and equipment, net	---	(506)	(5,275)	(680)	---	(6,461)
Net cash (used for) provided by investing activities	---	(506)	(5,275)	(680)	---	(6,461)
Cash flows from financing activities:						
Payments on long-term debt and capital lease	---	(400)	(52)	---	---	(452)
Cash contributions by joint venture partners	---	---	---	253	---	253
Cash distributions to joint venture partners	---	---	---	(1,165)	---	(1,165)
Net cash used for financing activities	---	(400)	(52)	(912)	---	(1,364)
Net decrease in cash and cash equivalents	---	(69,070)	(222)	1	---	(69,291)
Cash and cash equivalents at beginning of period	---	70,337	513	7	---	70,857
Cash and cash equivalents at end of period	\$ ---	\$ 1,267	\$ 291	\$ 8	\$ ---	\$ 1,566

Brookstone, Inc.
Condensed Consolidating Statement of Cash Flows
For the twenty-six weeks ended June 30, 2007
(In thousands)
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	\$ (17,635)	\$ (17,635)	\$ (16,416)	\$ 1,784	\$ 32,267	\$ (17,635)
Adjustments to reconcile net income (loss) to net cash used for operating activities:						
Depreciation and amortization	---	1,841	5,655	195	---	7,691
Amortization of debt issuance costs	---	1,131	---	---	---	1,131
Amortization of debt discount	---	154	---	---	---	154
Amortization of revaluation of leases	---	(102)	---	---	---	(102)
Share-based compensation expense	---	559	---	---	---	559
Other party interests in consolidated entities	---	---	---	---	686	686
Deferred income taxes, net	---	(11,556)	(2)	---	---	(11,558)
Equity income in subsidiary	17,635	16,416	(1,098)	---	(32,953)	---
Changes in operating assets and liabilities:						
Accounts receivable, net	---	320	3,609	89	---	4,018
Merchandise inventories	---	(8,842)	5,502	(10)	(967)	(4,317)
Prepaid expenses	---	(672)	410	---	---	(262)
Other assets	---	(19,573)	(14,182)	(1,307)	33,252	(1,810)
Accounts payable	---	(5,424)	---	---	---	(5,424)
Other current liabilities	---	(8,484)	(12,234)	---	---	(20,718)
Other long-term liabilities	---	1,044	32,026	---	(32,285)	785
Net cash provided by (used for) operating activities	---	(50,823)	3,270	751	---	(46,802)
Cash flows from investing activities:						
Expenditures for property, plant and equipment, net	---	(1,358)	(3,410)	3	---	(4,765)
Net cash (used for) provided by investing activities	---	(1,358)	(3,410)	3	---	(4,765)
Cash flows from financing activities:						
Payments on long-term debt and capital lease	---	(400)	(52)	---	---	(452)
Repurchase of equity interest	---	(2,028)	---	---	---	(2,028)
Cash distribution to parent	---	(5,000)	---	---	---	(5,000)
Cash distributions to joint venture partners	---	---	---	(754)	---	(754)
Net cash used for financing activities	---	(7,428)	(52)	(754)	---	(8,234)
Net decrease in cash and cash equivalents	---	(59,609)	(192)	---	---	(59,801)
Cash and cash equivalents at beginning of period	---	71,303	429	6	---	71,738
Cash and cash equivalents at end of period	\$ ---	\$ 11,694	\$ 237	\$ 6	\$ ---	\$ 11,937

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

Introduction

Founded in 1965, Brookstone (“we,” “our” or “the Company”) is a leading nationwide specialty retailer and product development company. Our strategy is to develop unique, innovative, Brookstone-branded products, in addition to other unique products not widely distributed 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. Brookstone offers approximately 3,000 Stock Keeping Units (“SKUs”) at any given time, of which approximately 625 are available through our retail store locations under four main product categories: home and office, audio and technology, travel and health and fitness. Approximately 60% of Brookstone products are priced at \$40.00 or less, although items in our stores range in price from less than \$5.00 to approximately \$6,000.00.

Discontinued Operations

On June 29, 2005, the Company announced its decision to sell its Gardeners Eden business and has reclassified those operations as discontinued operations in the consolidated statements of operations in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (“SFAS No. 144”). In January 2008, the Company closed the one remaining Gardeners Eden location in conjunction with the termination of the lease. For the thirteen week period ended June 30, 2007, Gardeners Eden operations resulted in a net loss of \$70 thousand (net of tax benefit of \$39 thousand). For the twenty-six week period ended June 30, 2007, Gardeners Eden operations resulted in a net loss of \$141 thousand (net of tax benefit of \$79 thousand). Continuing cash flows through the termination of the lease, were not significant when compared to the expected cash flows of the Gardeners Eden business, had the business not been discontinued.

Overview

Net sales for the thirteen-week period ended June 28, 2008 were \$97.4 million, a decrease of 2.5% compared to the second fiscal quarter of 2007. Same store sales for the thirteen-week period ended June 28, 2008 decreased 4.3% compared with the same period in 2007, as sales were impacted by our closest competitor’s “Going Out of Business Sale”. The Company experienced increased performances in the Massage, Stationary, Games and Comfort categories offset by decreases in the Home and Personal Comfort and Massage Chair categories. While the Company introduces new and updated products in many of its categories as part of its merchandising strategy, there can be no assurance that any such products in these categories will achieve the popularity of existing products or sell at planned levels, which failure could continue to affect our results. In addition, there can be no guarantee that existing products will sell at historical or planned levels, which failure could affect our results.

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		Twenty-six weeks ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Revenues, net				
Retail segment	79.4%	79.1%	80.3%	81.7%
Direct segment	20.6	20.9	19.7	18.3
Total revenues	100.0	100.0	100.0	100.0
Cost and expenses:				
Cost of sales	72.8	71.4	74.2	74.0
Gross profit	27.2	28.6	25.8	26.0
Selling, general and administrative expenses	35.1	32.2	36.8	34.3
Loss from operations	(7.9)	(3.6)	(11.0)	(8.3)
Interest expense, net	6.1	6.2	6.2	6.6
Loss before taxes and other party interests in consolidated entities and discontinued operations	(14.0)	(9.8)	(17.2)	(14.9)
Other party interests in consolidated entities	0.4	0.4	0.3	0.4
Loss before taxes and discontinued operations	(14.4)	(10.2)	(17.5)	(15.3)
Income tax benefit	(5.5)	(3.8)	(6.6)	(5.8)
Loss on discontinued operations, net of tax	-	(0.1)	-	(0.1)
Net loss	<u>(8.9)%</u>	<u>(6.5)%</u>	<u>(10.9)%</u>	<u>(9.6)%</u>

Results of Operations

For the thirteen-week period ended June 28, 2008, net sales decreased 2.5% to \$97.4 million as compared to the second quarter of 2007. Net sales in the retail segment for the thirteen-week period decreased approximately \$1.8 million, or 2.3%, to \$77.3 million as compared to \$79.1 million for the second quarter of 2007. The change was primarily comprised of a decrease in same store sales of 4.3% versus the second quarter in 2007, as sales were impacted by our closest competitor's "Going Out of Business Sale", and was also driven by decreases in the Home and Personal Comfort and Massage Chair categories, offset by increases in the Massage, Stationary, Games and Comfort categories. In addition, revenue during the thirteen-week period ended June 28, 2008 was impacted by decreased returns from customers, increased revenues generated from the opening of 13 new stores and decreased revenue resulting from 11 store closings subsequent to the second quarter of Fiscal 2007.

For the twenty-six week period ended June 28, 2008, net sales increased 2.3% to \$187.2 million as compared to the twenty-six week period in Fiscal 2007. Net sales in the retail segment increased 0.6%, or \$0.9 million, to \$150.3 million. The change was primarily comprised of a decrease in same store sales of 1.9% versus the twenty-six week period in 2007, as sales were impacted by our closest competitor's "Going Out of Business Sale", and was also driven by decreases in the Home and Personal Comfort and Massage Chair categories, offset by increases in the Massage, Stationary, Games and Comfort categories. In addition, revenue during the twenty-six week period ended June 28, 2008 was impacted by decreased returns from customers, increased revenues generated from the opening of 13 new stores and decreased revenue resulting from 11 store closings subsequent to the second

quarter of Fiscal 2007. The total number of Brookstone stores open on June 28, 2008 was 314 versus 312 on June 30, 2007.

For the thirteen-week period ended June 28, 2008, direct marketing sales decreased 3.8% to \$20.1 million as compared to the second quarter of 2007, primarily driven by decreased consumer demand. The decrease includes a decrease of \$121 thousand generated from revenues from customers for shipping and handling. For the twenty-six week period ended June 28, 2008, direct marketing sales increased 9.7% to \$36.9 million as compared to the twenty-six week period of Fiscal 2007, primarily driven by an increase in catalog circulation, offset by decreased consumer demand. The increase includes an increase of \$300 thousand generated from revenues from customers for shipping and handling.

For the thirteen-week period ended June 28, 2008, gross profit as a percentage of net sales decreased 1.4% to 27.2% versus 28.6% for the second quarter of 2007. This decrease is a result of an increase in occupancy costs as a percentage of sales of 1.2%, a decrease in product margins as a percentage of sales of 0.8%, offset by a decrease of 0.6% as a percentage of sales in order postage expense (costs associated with the delivery of products to customers). For the twenty-six week period ended June 28, 2008, gross profit as a percentage of net sales decreased 0.2% to 25.8% versus 26.0% for the twenty-six week period in Fiscal 2007. This decrease is comprised of a decrease in product margins as a percentage of sales of 0.6%, offset by a decrease in order postage expense as a percentage of sales of 0.4%. Occupancy costs as a percentage of net sales increased in the thirteen-week period ended June 28, 2008, primarily as a result of the decrease in sales.

For the thirteen-week period ended June 28, 2008, selling, general and administrative expenses as a percentage of net sales increased 2.9% to 35.1% versus 32.2% for the second quarter of Fiscal 2007 primarily as a result of increased advertising as a percentage of sales of 1.4%, increased payroll costs as a percentage of sales of 0.7% and an increase in general administrative costs as a percentage of sales of 0.8%. For the twenty-six week period ended June 28, 2008, selling, general and administrative expenses as a percentage of net sales increased 2.5% to 36.8% versus 34.3% for the twenty-six week period in Fiscal 2007 primarily as a result of increased advertising as a percentage of sales of 2.1%, increased general administrative costs as a percentage of sales of 0.7%, offset by a decrease in payroll costs of 0.3%. The increase in advertising expense as a percentage of net sales in both periods was driven by increased catalog circulation and increased broadcast and print advertising.

Net interest expense for the thirteen-week period ended June 28, 2008 was \$5.9 million, compared to \$6.2 million for the second quarter of Fiscal 2007. For the twenty-six week period ended June 28, 2008, net interest expense was \$11.5 million as compared to \$12.2 million for the twenty-six week period in Fiscal 2006. The decrease in interest expense in both periods is primarily due the Company's repurchase of \$15.0 million of senior secured notes during the third and fourth quarter of 2007.

For the thirteen week period ended June 28, 2008, the Company recorded an income tax benefit on continuing operations of \$5.3 million, as compared to an income tax benefit on continuing operations of \$3.9 million in the second quarter of Fiscal 2007. For the twenty-six week period the Company recorded an income tax benefit on continuing operations of \$12.4 million, as compared to an income tax benefit on continuing operations of \$10.7 million in Fiscal 2007. The income tax benefit recorded for the thirteen and twenty-six week periods, is strictly due to the seasonal nature of the business. The effective tax rate on continuing operations was 38.1% and 37.6% for the thirteen-week period ended June 28, 2008 and June 30, 2007, respectively. The effective tax rate on operations was 37.9% for the twenty-six week period ended June 28, 2008 and June 30, 2007, respectively.

During the second quarter of 2008, the Company opened one airport store in New York City and one airport store in San Antonio under separate joint venture arrangements with respect to each city. In addition, two airport stores in Dallas Fort Worth, two airport stores in Las Vegas, two airport stores in Chicago and four airport stores in Atlanta operate under separate joint venture arrangements with respect to each city. The Company has an 80% ownership interest in the New York venture, a 78% ownership interest in the San Antonio venture, a 65% ownership interest in the Dallas Fort Worth venture, an 80% ownership interest in the Las Vegas venture, a 70% ownership interest in the Chicago venture and a 49% ownership interest in the Atlanta venture. All joint ventures have been consolidated since inception based on the Company's ownership of the majority voting interests, with the exception of Atlanta, which has been consolidated since 2004. For the thirteen-weeks ended June 28, 2008 and June 30, 2007, other party interests in consolidated entities totaled \$369 thousand and \$379 thousand, respectively. For the twenty-six week periods, other party interests in consolidated entities totaled \$635 thousand and \$686 thousand, respectively.

As a result of the foregoing, for the thirteen-week and twenty-six week periods ended June 28, 2008 the Company reported a loss from operations of \$7.7 million and \$20.7 million, respectively, as compared to a loss from operations of \$3.6 million and \$15.3 million for the thirteen-week and twenty-six week periods ended June 30, 2007, respectively. Overall, for the thirteen-week and twenty-six week periods ended June 28, 2008, the Company reported a net loss of \$8.7 million and \$20.4 million, respectively, as compared to a net loss of \$6.5 million and \$17.6 million for the thirteen-week and twenty-six week periods ended June 30, 2007, respectively.

Financial Condition, Liquidity and Capital Resources

Cash flows for the twenty-six week period ended June 28, 2008

For the twenty-six week period ended June 28, 2008, the Company's cash position decreased \$69.3 million to \$1.6 million. Cash used for operations totaled \$61.5 million, primarily as a result of payments made for merchandise purchases during the 2007 winter holiday selling season and the first six months of 2008, the Company's net loss from operations and a decrease in other current liabilities resulting primarily from decreased returns from customers and 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 half of 2008.

Cash of \$6.5 million was utilized to fund capital expenditures in the twenty-six week period ended June 28, 2008, primarily related to the opening of five new Brookstone stores, the remodeling of seven Brookstone stores and construction related to stores anticipated to open or be remodeled in the fiscal year. In Fiscal 2008, the Company anticipates opening approximately 15 to 18 new Brookstone stores and remodeling approximately 15 to 18 locations.

Net cash used for financing activities totaled approximately \$1.4 million in the twenty-six week period ended June 28, 2008, reflecting payments on long-term debt (\$452 thousand), distributions to joint venture partners (\$1.2 million) and capital contributions by joint venture partners (\$253 thousand).

Cash flows for the twenty-six week period ended June 30, 2007

For the twenty-six week period ended June 30, 2007, the Company's cash position decreased \$59.8 million to \$11.9 million. Cash used for operations totaled \$46.8 million, primarily as a result of payments made for merchandise purchases during the 2006 winter holiday selling season, the Company's net loss from operations and a decrease in other current liabilities resulting primarily from decreased returns from customers and the payment of sales and income taxes.

Cash of \$4.8 million was utilized to fund capital expenditures in the twenty-six week period ended June 30, 2007, primarily related to the opening of six new Brookstone stores, the remodeling of five Brookstone stores and construction related to stores opened or remodeled in the fiscal year.

Net cash used for financing activities totaled approximately \$8.2 million in the twenty-six week period ended June 30, 2007, reflecting a capital distribution to our parent company (\$5.0 million), payments on long-term debt (\$452 thousand), distributions to joint venture partners (\$754 thousand) and payments for the repurchase of certain equity interests of OBH LP (\$2.0 million).

Other Balance Sheet Changes

Receivables decreased 32.2% to \$8.7 million at June 28, 2008, as compared to \$12.8 million at December 29, 2007, primarily as a result of the collection of: year-end customer financed sales, credit card sales and construction allowances due from landlords. Merchandise inventories decreased 13.4% to \$92.1 million at June 28, 2008, as compared to \$106.4 million at December 29, 2007 as a result of reduced purchases to meet consumer demand. Deferred income taxes increased \$12.6 million as a result of the Company's recording an income tax benefit related to the loss before taxes incurred in the first half of Fiscal 2008.

The Company maintains a revolving credit facility to finance inventory purchases, which historically peak in the third quarter in anticipation of the winter holiday selling season. At June 28, 2008, December 29, 2007 and June 30, 2007, the Company had no cash borrowings outstanding under its senior secured credit facility.

Cash flows for the remainder of Fiscal 2008

The Company believes that cash on hand, anticipated cash generated from operations and available borrowings will be sufficient to finance its remaining cash expenditures and capital requirements in Fiscal 2008. In Fiscal 2008, the Company anticipates funding a maximum of \$100,000 for its obligation under its defined benefit pension plan.

Recent Accounting Pronouncements

In March 2008, the FASB issued 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 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Early application is encouraged, as are comparative disclosures for earlier periods, but neither are required. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 161 would have on its financial statement disclosures.

In December 2007, the FASB issued Statement 133 Implementation Issue No. 23, *Hedging – General: Issues Involving the Application of the Shortcut Method under Paragraph 68* (“Issue No. 23”). Issue No. 23 amends the accounting and reporting standards of FASB Statement No. 133, paragraph 68 regarding the application of the shortcut method in hedge accounting. Issue No. 23 is effective for hedging relationships designated on or after January 1, 2008 and requires that all pre-existing hedging relationships be evaluated to determine if they met the amended requirements at the inception of the hedging relationship. For any hedging relationships that do not qualify under the amended requirements, an entity must de-designate that hedging relationship prospectively. The Company adopted Issue No. 23 as of the beginning of Fiscal 2008, and as a result, the Company has de-designated the interest rate swap as a hedging instrument in accordance with the amended requirements. The de-designation of the interest rate swap as a hedging instrument did not have a material effect on the financial position or results of operations of the Company.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51*. SFAS No. 141(R) will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 141(R) and SFAS No. 160 are effective for fiscal years beginning after December 15, 2008. Early adoption is not permitted. The Company is currently evaluating the impact, if any, that the adoption of SFAS No. 141(R) and SFAS No. 160 would have on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 provides a common fair value hierarchy for companies to follow in determining fair value measurements in the preparation of financial statements and expands disclosure requirements relating to how such fair value measurements were developed. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that the marketplace would use when pricing an asset or liability, rather than company-specific data. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. However, on February 12, 2008, the FASB issued Staff Position 157-2 which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within its scope, this Staff Position defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008. The Company does not believe that the adoption of SFAS No. 157 for its non-financial assets and liabilities, effective January 4, 2009, will have a material impact to the consolidated financial statements. The Company adopted SFAS No. 157 effective December 30, 2007 for its financial assets and liabilities and this adoption did not have a material impact to the 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 December 30, 2006, filed on March 29, 2007, 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. Excluding our adoption of: SFAS No. 157, with respect to fair value measurements and the de-designation of our interest rate swap as a hedging instrument, there have been no material changes to our application of critical accounting policies and significant judgments and estimates since December 29, 2007.

Outlook: Important Factors and Uncertainties

Statements in this quarterly report, which are not historical facts, including statements about the Company's confidence or expectations, earnings, anticipated operations of its e-commerce sites and those of third-party service providers, and other statements about the Company's operational outlook are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 ("Reform Act") and are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in such forward-looking statements. Such risks and uncertainties include, without limitation, risks of changing market conditions in the overall economy and the retail industry, consumer demand, the effectiveness of e-commerce technology and marketing efforts, availability of products, availability of adequate transportation of such products, and other factors detailed from time to time in the Company's annual and other reports filed with the Securities and Exchange Commission. Words such as "estimate", "project", "plan", "believe", "feel", "anticipate", "assume", "may", "will", "should" and similar words and phrases may identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which are relevant only as of the date thereof. The Company undertakes no obligations to publicly release any revisions to these forward-looking statements or reflect events or circumstances after the date hereof.

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 2007 annual report on Form 10-K, as posted on the Company's website at 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 twenty-six weeks ended June 28, 2008.

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 Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 28, 2008 pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer 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 time, 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*

You should carefully consider the following risks regarding our Company. These and other risks could materially and adversely affect our business, results of operations or financial condition. You should also refer to the other information contained or incorporated by reference in this report, including the risk factors disclosed in our most recent Annual Report on Form 10-K for Fiscal 2007, as posted on our web site at www.brookstone.com. The risk factors described below contain no material changes from the risk factors previously disclosed in our most recent Annual Report on Form 10-K.

Our results of operations are highly dependent on our sales during the winter holiday season and the Father's Day selling season.

A high percentage of our annual sales and substantially all of our annual income from operations have historically been attributable to the winter holiday selling season. In addition, our sales in our second fiscal quarter are generally higher than sales during the first and third quarters as a result of sales in connection with Father's Day. Like many retailers, we must make merchandising and inventory decisions for the winter holiday selling season and the Father's Day selling season well in advance of actual sales. Accordingly, unfavorable economic conditions, weather conditions and/or deviations from projected demand for products during these seasons could have a material adverse effect on our results of operations for the entire fiscal year. While we have implemented certain measures to improve our results during periods outside of the winter holiday selling season and the Father's Day selling season, such as the opening of stores in airports, we expect that our annual results of operations will remain dependent on our performance during the winter holiday selling season, and to a lesser extent, on our performance during the Father's Day selling season.

Our ability to introduce innovative merchandise and updated products may impact our sales and profitability.

Successful implementation of our merchandising strategy depends on our ability to introduce in a timely manner new or updated products, which are affordable, functional in purpose, distinctive in quality and design and not widely available from other retailers. We expect that the popularity of a product or group of related products of the types we typically offer will be limited in time due to the continual changing nature of consumer preferences. In addition, if our products or substitutes for such products become widely available from other retailers (including mass-retailers, department stores or discount retailers), demand for these products from us may decline or we may be required to reduce our retail prices. If a competitor of our Company were to offer for sale new and innovative products that we did not offer for sale, customer demand for our goods could decline. A decline in the demand for, or a reduction in the retail prices of, our important existing products can cause declines in our sales and profitability if we are unable to introduce in a timely fashion new or replacement products of similar sales levels and profitability. Even with innovative merchandising, there remains a risk that the products will not sell at planned levels.

Changes in consumer preferences could adversely affect our business.

Our business in general is subject to changing consumer and industry trends, demands and preferences. Our continued success depends largely on the introduction and acceptance by our customers of new product lines and improvements to existing product lines that respond to such trends, demands and preferences. Trends within the industry change often and our failure to anticipate, identify or react to changes in these trends could lead to, among other things, rejection of a new product line and reduced demand and price reductions for our products, and could materially adversely affect us. In addition, we may not have sufficient resources to make necessary investments or we may be unable to make the advances necessary to develop new products or improve our existing products to maintain our market position.

We are exposed to product liability claims and intellectual property infringement claims.

Although we seek to maintain quality standards at a high level, our products may have defects that could result in high rates of return, recalls or product liability claims. Such returns, recalls or claims could adversely affect profitability. Third parties may assert claims for patent or trademark infringement, or violation of other proprietary rights. If successful, such claims could result in the inability to sell a particular product or, in the case of a settlement or royalty, adversely impact the profitability of the product and could have a material adverse effect on our results of operations. Such claims could entail significant legal expenses even if they are ultimately resolved in our favor.

Our ability to protect our proprietary technology is uncertain and our inability to protect these rights could impair our competitive advantage and cause us to incur substantial expense to enforce our rights.

We actively pursue and protect, domestically and internationally, our corporate trademarks and other intellectual property rights to ensure that the quality of our brand and the value of our proprietary rights are maintained. We seek patents to establish and protect our proprietary rights relating to the technologies and products we have developed, are in the process of developing, or that we may develop in the future. We have taken and will continue, in the future, to take steps to broaden and enhance our patent protection for our proprietary products.

We cannot assure you that a third party will not infringe upon or design around any patent issued or licensed to us, or that these patents will otherwise be commercially viable. Litigation to establish the validity of patents, to defend against patent infringement claims of others and to assert patent infringement claims against others can be expensive and time-consuming even if the outcome is favorable to us. If the outcome is unfavorable to us, we may be required to pay damages, stop production and sales of infringing products or be subject to increased competition from similar products. We have taken and may, in the future, take steps to enhance our patent protection, but we cannot assure you that these steps will be successful or that, if unsuccessful, our patent protection will be adequate.

We also rely upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position. We attempt to protect our proprietary technology in large part by confidentiality agreements with our employees, consultants and other contractors. We cannot assure you, however, that these agreements will not be breached, that we will have adequate remedies for any breach or that competitors will not know of or independently discover our trade secrets.

Existing or future governmental regulations and legal uncertainties, including those relating to consumer protection, could have a material impact on our business or results from operations.

Our Company and its operations are subject to numerous laws, regulations and governmental policies and procedures on the international, federal, state and local levels, including, but not limited to, laws, regulations, policies, procedures, rulings, interpretations, or other governmental or quasi-governmental practices, regarding corporate governance, commerce, customs, international trade, labor and employment, importation tax, securities, accounting, and other laws and regulations which are, or are found to be, applicable to us. Changes to this legal and regulatory framework, or to any individual law or regulation, or governmental policy or procedure to which we are now, or are determined to be in the future, subject, could have a material impact on our business or results from operations.

In addition, we are subject to federal, state, local and foreign consumer protection laws and regulations, including laws prohibiting unfair and deceptive trade practices. The violation of these laws may result in actions by governmental agencies or give rise to private rights of action, including class action lawsuits. If any of these claims are successful, it could materially adversely affect our business. In addition, any amendments to these regulations may force us to change certain aspects of our business, which may materially adversely affect our results of operations.

The success of our business is dependent on our ability to open new stores and temporary locations.

Our ability to open new stores, including airport locations, and to operate our temporary location program successfully depends upon, among other things, our capital resources and our ability to locate suitable sites, negotiate favorable rents and other lease terms and implement our operational strategy. In addition, because our store designs must evolve over time so that we may effectively compete for customers in top malls, airports and other retail locations, actual store-related capital expenditures may vary from historical levels due to such factors as

the scope of remodeling projects, general increases in the costs of labor and materials and unusual product display requirements.

If our leases terminate or are not renewed upon expiration, we may not be able to find comparable locations.

All of our retail stores are leased. There can be no assurance that upon termination or expiration of these leases, we will be able to renew them on acceptable terms, or at all.

We operate in a very competitive business environment.

The U.S. retail industry is highly competitive. We compete against large international and national players, as well as many regional competitors. Some of our principal competitors may be less highly leveraged than we are and have greater financial, marketing and distribution resources than we do. Accordingly, these competitors may be better able to withstand changes in conditions within the industries in which we operate, and may have significantly greater operating and financial flexibility than we do. These competitors could increase their market share and cause us to lose business from our customers.

As a result of this competitive environment, we face and will continue to face pressure on sales prices of our products from competitors. As a result of these pricing pressures, we may in the future experience reductions in our profit margins, revenues or sales. In addition, we will need to invest continuously in customer service and support, marketing and our sales force. We cannot assure you that we will be able to maintain or increase either current market share of our products or our price and operating margins successfully in the future.

Our business will suffer if certain key officers or employees discontinue employment with us or if we are unable to recruit and retain highly skilled personnel.

The success of our business is materially dependent upon the skills, experience and efforts of our executive officers and certain of our other members of senior management and employees. The loss of one or more members of senior management or other key personnel could have a material adverse effect on our business, operating results or financial condition. Our business also depends on our ability to continue to recruit, train and retain skilled employees, particularly highly-skilled and motivated, full-time and temporary associates with appropriate retail experience to work in management and in our stores and temporary locations. Further, because of the limited time periods during which temporary locations are open each year, the availability of suitable associates for such locations is limited. The market for these resources is highly competitive. The loss of the services of any key personnel, or our inability to hire new personnel with the requisite skills, could impair our ability to develop new products or enhance existing products, sell products to our customers or manage our business effectively.

Our business may be negatively impacted by poor economic conditions.

Our business has been and may in the future be impacted by economic conditions that tend to reduce the level of discretionary consumer spending. These conditions include high interest rates, inflation, unemployment, stock market uncertainty and low consumer confidence.

Computer systems or telephone services failures could have a material adverse effect on us.

Our success is dependent upon our computer hardware and software systems and our telecommunications systems. The internet portion of the direct marketing segment relies heavily on the proper operation of these systems, as well as on the continued operation of the external components of the internet, to market goods and to receive and process orders. The retail segment utilizes point of sale computers located in the stores. Our headquarters and distribution center rely on a wide variety of applications to carry on the business. These systems are subject to damage from natural disasters, power failures, hardware and software failures, security breaches, including breaches involving customer credit card information, network failures, computer viruses and operator negligence. Should one of these systems fail or be inadequate to support future growth, our results could be materially and adversely impacted. We are also dependent on certain vendors of our key information systems. Should these vendors experience financial difficulties, the support of these key systems could be negatively impacted.

Disruptions at our distribution center, including potential labor disputes and work stoppages, could significantly increase our distribution costs and therefore adversely affect our financial performance.

We conduct the majority of our distribution operations and a significant portion of our direct marketing processing functions from our facility in Mexico, Missouri. A disruption in operations at the distribution center may

significantly increase our distribution costs and prevent goods from flowing to stores and customers. We use third-party carriers for our product shipments. The distribution of products is vulnerable to disruption from employee strikes and labor unrest, in particular, potential strikes by UPS employees and/or longshoremens, which could increase costs and impede or restrict the supply of goods.

The success of our direct marketing operations is dependent on various factors, including the receipt of adequate customer response to mailings and rising paper and postal rates.

The success of our catalog operation hinges on the achievement of adequate response rates to mailings, merchandising and catalog presentation that appeal to mail order customers and the expansion of the potential customer base in a cost-effective manner. Lack of consumer response to particular catalog mailings could increase the costs and decrease the profitability of the direct marketing segment. Significant costs relative to paper, postage and inventory are associated with the direct marketing segment. Rising paper, printing and postal rates can negatively impact the business and the failure to accurately predict consumer response or to achieve the optimum cost-effective level of catalog circulation could adversely affect revenues and growth of the business. In addition, terrorism perpetrated via the U.S. mail or threats thereof could have a material adverse impact on our catalog business.

Because we depend on a core group of significant vendors, our operating results may be adversely affected by the loss of these key vendors or if these key vendors are unable to continue to fill our orders for their products.

Because we strive to sell only unique merchandise, adequate substitutes for certain key products may not be widely available in the marketplace. There can be no assurance that vendor manufacturing or distribution problems, or the loss of our exclusive rights to distribute important products, would not have a material adverse effect on our performance. In Fiscal 2007, no single vendor supplied products representing more than 10% of net sales, with our 10 largest vendors representing approximately 38% of net sales. Our operating results could be adversely affected if any of our 10 largest vendors were unable to continue to fill our orders for such vendor's products or failed to fill those orders in a timely way.

Our dependence on foreign vendors subjects us to possible delays in receipt of merchandise and to the risks involved in foreign operations.

We purchase a substantial portion of our merchandise from foreign vendors, including, but not limited to, Asia. Our reliance on such vendors subjects us to associated legal, social, political and economic risks, including, but not limited to, import, licensing and trade restrictions. In particular, economic relations between the United States and China have historically had a potential for volatility, the recurrence of which could have a material adverse impact on our operations and results. There is continued political pressure on China to permit the exchange rate of its currency, the Chinese Yuan ("CNY"), to float freely against the U.S. Dollar ("USD"). Although substantially all of our supply contracts in China are denominated in USD, our suppliers could attempt to renegotiate these contracts and increase costs to us if the CNY/USD exchange rate were to change. We are also subject to the risk that the manufacturers abroad that manufacture our products may employ labor practices that are not consistent with acceptable practices in the United States. In any such event, we could be hurt by negative publicity with respect to those practices and, in some cases, face liability for those practices.

Additionally, we are highly dependent upon steamship lines and air cargo companies to transport this merchandise from overseas to the United States and as such, we remain vulnerable to equipment shortages and labor stoppage, as well as terror alerts and acts of terrorism, both at the ports and countries of origins and in the United States. In such a situation, we could face inventory shortages in certain products, increased transportation costs and increased interest expense as a result of moving inventory receipts forward.

The expansion of our business into international markets would expose us to certain risks.

We may further expand the Brookstone concept into various international markets. We cannot assure you that we will maintain significant operations internationally or that any such operations will be successful. Any international operations we establish will be subject to risks similar to those affecting our existing operations in the United States in addition to a number of other risks, including:

- political and economic instability in foreign markets;
- inconsistent product regulation by foreign agencies or governments;
- imposition of product tariffs and burdens;

- cost of complying with a wide variety of international and U.S. export laws and regulatory requirements;
- foreign currency fluctuations;
- difficulty in enforcing intellectual property rights; and
- language and other cultural barriers.

We currently do not plan to acquire political risk insurance in the countries in which we will conduct business. While we will carefully consider the risks in countries where we are evaluating investment opportunities, we cannot assure you that we will not be materially adversely affected as a result of such risks.

Interruptions in deliveries of raw materials and/or increased prices for raw materials used in our products could adversely affect our profitability, margins and revenues.

The raw materials used to manufacture the products we sell are subject to availability constraints and price volatility caused by high demand for such products and their components, currency fluctuations, factory capacity, competition for suppliers and factories, weather, supply conditions, government regulations, economic climate and other unpredictable factors, which could result in increased costs. In addition, our transportation and labor costs are subject to price volatility caused by the price of oil, supply of labor, governmental regulations, economic climate, currency fluctuations and other unpredictable factors. Increases in demand for, or the price of, raw materials, distribution services and labor could have a material adverse effect on our business, financial condition and results of operations. Since we rely significantly on foreign sources of raw materials and production, we are at risk from a variety of factors that could leave us with inadequate or excess inventories, resulting in decreased profits or losses.

Increases in petroleum prices may increase our transportation and shipping costs and the costs of certain of our products, which could lead to a decrease in sales.

Increases in petroleum prices have resulted in increased transportation and shipping costs for our Company. Further increases in petroleum prices, or failure of such prices to decline, could continue to increase our costs for transportation and shipping and also could cause increases in the cost of goods that are manufactured from plastics and other petroleum-based products. In addition, increased petroleum prices may lead to increased airfares, which could cause a decrease in sales.

Fluctuating exchange rates could adversely affect our profitability and revenues.

We conduct a substantial part of our business in the U.S., and therefore our profitability and revenues may be adversely affected by fluctuating exchange rates. We are subject to currency exchange rate risk to the extent that our costs are denominated in currencies other than those in which we earn revenues. We cannot assure you that currency exchange rate fluctuations will not adversely affect our results of operations and financial condition.

Health epidemics, terror alerts, terrorist attacks and other acts of violence or war may adversely affect our sales.

The United States Federal Government terror alerts have a negative effect on retail sales as they cause a disruption of consumer shopping patterns. Our stores are located predominantly in large public areas such as malls and airports, which experience a significant decrease in traffic during periods of high alert. Our stores are dependent on pedestrian traffic for sales volume. Terror alerts and acts of terrorism that affect such traffic could have a materially adverse impact on sales. Terror alerts related to acts of terrorism perpetrated via the U.S. mail could also have a material adverse impact on our catalog business.

A significant portion of our sales is generated at our airport store locations. Additionally, we market a wide range of products attractive to the traveling public. A decrease in traffic due to war, terrorism, health epidemics, cost increases to the consumer, or the consolidation of the airline industry caused by merger and bankruptcy and the consequent reduction of flights and available destinations could negatively affect the volume of business at our airport store locations and could depress the sales of travel-related merchandise.

The outbreak of unexpected disease threats such as severe acute respiratory syndrome (SARS), influenza, and insect-borne diseases such as encephalitis and the West Nile virus could negatively impact our sales. Travel restrictions to certain parts of the world could impair our activities with some of our vendors that could result in product shortages and could slow new product development. Additionally, any reduction in travel could depress sales at our airport locations and reduce sales of our travel-related merchandise. Fear of contagion could cause a drop in traffic at all of our store locations with a consequent drop in sales.

Extreme weather conditions may negatively impact our business, financial condition and results of operations.

Extreme weather conditions in regions in which we source our products or the areas in which our stores are located could have a material adverse effect on our business, financial condition and results of operations. Major international catastrophes such as tsunamis, hurricanes and earthquakes could adversely affect our business in a number of ways, including but not limited to, store closures, reduced sales, performance delays, product shortages and increased costs, all of which are beyond our control and cannot be anticipated. Also, heavy snowfall or other extreme weather conditions over a prolonged period might make it difficult for our customers to travel to our stores. Our business is also susceptible to unseasonable weather conditions. For example, extended periods of unseasonably warm temperatures during the winter season or cool weather during the summer season could render a portion of our inventory incompatible with those unseasonable conditions. These prolonged unseasonable weather conditions could adversely affect our business, financial condition and results of operations.

Our Sponsors' interests may conflict with the interests of other securityholders of the Company.

The Sponsors and their affiliates and designees indirectly collectively beneficially own approximately 96.7% of our outstanding voting securities. As a result, our Sponsors are collectively in a position to control all matters affecting us, including decisions regarding extraordinary business transactions, fundamental corporate transactions, appointment of members to our management, election of directors and our corporate and management policies.

The interests of our Sponsors could conflict with the interests of other securityholders of the Company. These potential conflicts could arise, for example, if we encounter financial difficulties or are unable to pay our debts as they mature. Our Sponsors may also have an interest in pursuing acquisitions, divestitures, financings or other transactions, including dividend payments to the holders of our equity, that in their judgment, could enhance their equity investments, even though such transactions might involve risks to other securityholders of the Company.

Our substantial indebtedness could adversely affect our financial health.

We currently have a significant amount of indebtedness. As of June 28, 2008, we had total net indebtedness of \$175.4 million (of which \$168.8 million consisted of the senior secured notes, net of discount on the notes of \$1.2 million, and the balance consisted of other debt).

Our substantial indebtedness could have important consequences to our investors. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the senior secured notes;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to borrow additional funds.

In addition, the indenture for the senior secured notes and our senior secured credit facility contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debts.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures and research and development efforts will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Based on our current level of operations and anticipated cost savings and operating improvements, we believe our cash flow from operations, available cash and available borrowings under our senior secured credit facility, will be adequate to meet our future liquidity needs at least until the maturity date of our senior secured credit facility.

We cannot assure you, however, that our business will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized on schedule or that future borrowings will be available to us under our senior secured credit facility in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including our senior secured credit facility and the senior secured notes, on commercially reasonable terms or at all.

If we are unable to satisfy regulatory requirements relating to internal controls over financial reporting, our business could suffer.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, both our reputation in the marketplace and our financial results could suffer. We have spent considerable resources reviewing and implementing improvements to our internal controls. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Inadequate internal controls could also cause our investors to lose confidence in the accuracy of our reported financial information.

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 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 Chief Financial 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)

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.

Date: August 11, 2008

Brookstone, Inc.

/s/ Philip W. Roizin
(Signature)

Philip W. Roizin
Executive Vice President Finance and Administration,
Treasurer and Secretary
(Principal Financial Officer
and duly authorized to sign on behalf of the Company)

Exhibit Index

<u>Exhibit Number</u>	<u>Exhibit</u>
31.1	Certification of Principal Executive Officer in the Form Provided by Rule 15d-14 of the Securities Exchange Act of 1934 (filed herewith)
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**Certification in the Form Provided by Rule 15d-14
of the Securities Exchange Act of 1934**

I, Louis Mancini, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 28, 2008 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 registrant as of, and for, the periods presented in this report;
4. The registrant'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)) for the registrant 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 registrant, 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. Evaluated the effectiveness of the registrant'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
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 11, 2008

By: /s/ Louis Mancini
Louis Mancini
President and Chief Executive Officer,
Director
(Principal Executive Officer)

**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 June 28, 2008 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 registrant as of, and for, the periods presented in this report;
4. The registrant'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)) for the registrant 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 registrant, 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. Evaluated the effectiveness of the registrant'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
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 11, 2008

By: /s/ Philip W. Roizin
Philip W. Roizin
Executive Vice President, Finance and
Administration, Treasurer, Secretary and
Chief Financial Officer
(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 Chief Executive Officer of Brookstone, Inc. (the "Company"), does hereby certify that:

- 1) the Company's Form 10-Q for the quarterly period ended June 28, 2008 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 June 28, 2008 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Louis Mancini

Louis Mancini
President and Chief Executive
Officer, Director

Dated: August 11, 2008

**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 Chief Financial Officer of Brookstone, Inc. (the “Company”), does hereby certify that:

- 1) the Company’s Form 10-Q for the quarterly period ended June 28, 2008 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 June 28, 2008 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Philip W. Roizin

Philip W. Roizin
Executive Vice President, Finance and
Administration,
Treasurer, Secretary and Chief Financial
Officer

Dated: August 11, 2008