

Note: This form was not filed with the  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

**FORM 10-Q**

**[X] 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 30, 2007

Brookstone, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

06-1182895  
(I.R.S. Employer  
Identification No.)

One Innovation Way, Merrimack, NH 03054

(address of principal executive offices, zip code)

603-880-9500

(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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer

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

At August 8, 2007, the number of shares outstanding of the Registrant's common stock, par value \$.01 per share, was  
1.

**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 30, 2007</u> (Unaudited)	<u>December 30, 2006</u> (Note 1)	<u>July 1, 2006</u> (Unaudited)
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 11,937	\$ 71,738	\$ 23,604
Receivables, net	8,453	12,472	9,663
Merchandise inventories	99,570	95,253	73,776
Deferred income taxes, net	15,427	3,841	16,704
Prepaid expenses	9,364	7,478	9,003
Total current assets	144,751	190,782	132,750
Property, plant and equipment, net	70,170	72,638	74,631
Intangible assets, net	130,896	131,354	131,813
Goodwill	190,329	190,329	192,453
Other assets	14,767	16,080	17,300
Total assets	<u>\$ 550,913</u>	<u>\$ 601,183</u>	<u>\$ 548,947</u>
<u>Liabilities and Shareholder's Equity</u>			
Current liabilities:			
Accounts payable	\$ 17,986	\$ 23,410	\$ 12,562
Other current liabilities	33,694	56,240	41,098
Total current liabilities	51,680	79,650	53,660
Other long-term liabilities	21,664	20,954	19,700
Long-term debt	189,955	190,253	190,551
Deferred income taxes	45,355	45,317	43,430
Commitments and contingencies (See Note 5)			
Other party interests in consolidated entities	1,045	1,114	1,296
Shareholder's equity:			
Common Stock – \$0.01 par value 1,000 shares authorized, one share issued and outstanding	---	---	---
Additional paid-in capital	240,009	245,071	245,310
Accumulated other comprehensive income	174	158	192
Retained earnings (deficit)	1,031	18,666	(5,192)
Total shareholder's equity	<u>241,214</u>	<u>263,895</u>	<u>240,310</u>
Total liabilities and shareholder's equity	<u>\$ 550,913</u>	<u>\$ 601,183</u>	<u>\$ 548,947</u>

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

**BROOKSTONE, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands)  
(Unaudited)

	<b>Thirteen-weeks Ended</b>		<b>Twenty-six weeks Ended</b>	
	<b>June 30, 2007</b>	<b>July 1, 2006</b>	<b>June 30,</b>	<b>July 1, 2006</b>
Net sales	\$ 99,925	\$ 91,322	\$ 183,065	\$ 168,031
Cost of sales	71,362	66,410	135,502	127,351
Gross profit	28,563	24,912	47,563	40,680
Selling, general and administrative expenses	32,196	31,120	62,868	61,478
Loss from continuing operations	(3,633)	(6,208)	(15,305)	(20,798)
Interest expense, net	6,235	6,178	12,166	11,977
Loss before taxes, other party interests in consolidated entities and discontinued operations	(9,868)	(12,386)	(27,471)	(32,775)
Other party interests in consolidated entities	379	359	686	646
Loss before taxes and discontinued operations	(10,247)	(12,745)	(28,157)	(33,421)
Income tax benefit	(3,855)	(1,859)	(10,663)	(11,513)
Loss on discontinued operations, net of tax benefit of \$39, \$37, \$79 and \$173	(70)	(76)	(141)	(318)
Net loss	<u>\$ (6,462)</u>	<u>\$ (10,962)</u>	<u>\$ (17,635)</u>	<u>\$ (22,226)</u>

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

**BROOKSTONE, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Twenty-six weeks Ended</b>	
	<b>June 30, 2007</b>	<b>July 1, 2006</b>
Cash flows from operating activities:		
Net loss	\$ (17,635)	\$ (22,226)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	7,691	7,083
Amortization of debt issuance costs	1,131	1,090
Amortization of debt discount	154	154
Amortization of revaluation of leases	(102)	(102)
Share-based compensation expense	559	503
Other party interests in consolidated entities	686	646
Deferred income taxes, net	(11,558)	(11,757)
Change in other assets	(186)	1,013
Change in other long-term liabilities	785	1,234
Changes in working capital:		
Accounts receivable, net	4,018	1,243
Merchandise inventories	(4,317)	1,940
Prepaid expenses	(1,886)	114
Accounts payable	(5,424)	(9,450)
Other current liabilities	(20,718)	(16,658)
Net cash used for operating activities	(46,802)	(45,173)
Cash flows from investing activities:		
Expenditures for property and equipment, net	(4,765)	(4,928)
Net cash used for investing activities	(4,765)	(4,928)
Cash flows from financing activities:		
Payments of debt issuance costs	---	(349)
Payments on long-term debt and capital lease	(452)	(451)
Repurchase of equity interest	(2,028)	(1,520)
Cash distributions to parent company	(5,000)	---
Capital contributions	---	225
Cash distributions to joint venture partners	(754)	(526)
Net cash used for financing activities	(8,234)	(2,621)
Net decrease in cash and cash equivalents	(59,801)	(52,722)
Cash and cash equivalents at beginning of period	71,738	76,326
Cash and cash equivalents at end of period	\$ 11,937	\$ 23,604

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”, “us” 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 2006 annual report on Form 10-K, as filed with the Securities and Exchange Commission (the “SEC”) and as posted on the Company’s website at [www.brookstone.com](http://www.brookstone.com).

The results of the thirteen and twenty-six week periods ended June 30, 2007 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. 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”). For the thirteen-week periods ended June 30, 2007 and July 1, 2006, Gardeners Eden operations resulted in a net loss of \$70 thousand (net of tax benefit of \$39 thousand) and \$76 thousand (net of tax benefit of \$37 thousand), respectively. For the twenty-six week periods ended June 30, 2007 and July 1, 2006, Gardeners Eden operations resulted in a net loss of \$141 thousand (net of tax benefit of \$79 thousand) and \$318 thousand (net of tax benefit of \$173 thousand), respectively. Cash flows from this operation are expected to continue throughout Fiscal 2007, due to an ongoing lease arrangement. These continuing cash flows are not significant when compared to the expected cash flows of the Gardeners Eden business, had the business not been discontinued.

### 3. Comprehensive Loss

Other comprehensive income consists of unrealized gain on a cash flow hedge related to the Company’s variable rate debt. Total comprehensive loss for the thirteen and twenty-six week periods ended June 30, 2007 and July 1, 2006 are presented below (in thousands):

	Thirteen-weeks		Twenty-six weeks	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Net loss	\$ (6,462)	\$ (10,962)	\$ (17,635)	\$ (22,226)
Other comprehensive income:				
Unrealized gain on cash flow hedge (net of tax of \$14, \$33, \$10 and \$38, respectively)	24	42	16	49
Total comprehensive loss	\$ (6,438)	\$ (10,920)	\$ (17,619)	\$ (22,177)

#### 4. Shareholder's Equity

In June 2006, under the terms of a separation agreement with the Company's former President and Chief Executive Officer, OSIM Brookstone Holdings, L.P. ("OBH LP"), of which the Company is an indirect, wholly owned subsidiary, exercised its right to require this individual to relinquish his limited partnership interests in OBH LP and withdraw from the partnership for approximately \$4.6 million, payable in three equal installments in June 2006, on January 2, 2007 and July 2, 2007, respectively. The total amount has been reflected as a reduction of capital. The Company paid the first \$1.52 million installment in June 2006 and the second \$1.52 million installment in January 2007. The remaining \$1.52 million has been included in "other current liabilities" in the accompanying balance sheet as of June 30, 2007.

In November 2006, under the terms of a separation agreement with the Company's former Executive Vice President, Store Operations, OBH LP exercised its right to require this individual to relinquish his limited partnership interests in OBH LP and withdraw from the partnership for \$0.6 million, payable in two equal installments on January 2, 2007 and July 2, 2007, respectively. The total amount has been reflected as a reduction of capital. The Company paid the first \$0.3 million installment in January 2007. The remaining \$0.3 million has been included in "other current liabilities" in the accompanying balance sheet as of June 30, 2007.

During the second quarter of 2007, the Company declared and paid a dividend of \$5 million to its direct parent entity, Brookstone Holdings Corp. The payment has been reflected as a reduction of additional paid-in capital.

##### *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 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>For the Thirteen and Twenty-Six weeks Ended</u>	
	<u>June 30, 2007</u>	<u>July 1, 2006</u>
Expected stock price volatility	50.0%	53.0%
Risk-free interest rate	4.86%	4.90%
Expected life of awards	3.75 years	5 years
Dividend yield	---	---
Weighted-average grant date fair value	\$8.15	\$1.07

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 \$138 thousand for the thirteen and twenty-six week periods ending June 30, 2007 and \$189 thousand and \$503 thousand for the thirteen and twenty-six week periods ending July 1, 2006, 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 30, 2007, the Company had approximately \$3.7 million of Class B Interests 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 purchased in April 2006, a "Put Price" determined as provided therein during the thirty (30) day period following the fifth anniversary of his employment commencement date. As of June 30, 2007 and December 31, 2006, the Company has recorded an other long-term liability of approximately \$976 thousand and \$555 thousand, respectively, in conjunction with this Put Right.. Approximately \$212 thousand and \$421 thousand of compensation expense was recognized for the thirteen and twenty-six week periods ending June 30, 2007, respectively, and are classified in Selling, General and Administrative expenses.

## 5. Contingencies

On September 15, 2004, a putative class action was commenced against us in the California Superior Court in Los Angeles County. The complaint, as amended, alleged, among other things, that we engaged in unfair business practices under California's Unfair Competition Laws in connection with the manufacture and sale of certain air purifiers. The lawsuit sought unspecified damages and other relief. In December 2006 the parties agreed to settle the plaintiffs' claims, and on May 15, 2007, the court granted final approval of the settlement, which included the payment of \$650 thousand by the Company under the terms of the settlement on June 5, 2007. There was no finding or admission of fault by us under the settlement.

On June 23, 2005, we were served with a lawsuit in the United States District Court for the Southern District of Alabama (Southern Division), styled as a class action on behalf of all consumers who purchased a certain air purifier from us alleging, among other things, that such products were not suitable for the purposes for which they were intended. The lawsuit sought unspecified damages. On October 18, 2006, the parties agreed to settle the plaintiff's claims, and on May 16, 2007, the court granted final approval of the settlement, which included the payment of \$1.2 million by the Company under the terms of the settlement on June 22, 2007. There was no finding or admission of fault by us under the settlement.

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

## 6. 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 directly through the store location. The direct marketing segment is comprised of the Brookstone Catalog, the Internet site [www.Brookstone.com](http://www.Brookstone.com) and sales to corporate and wholesale customers. Direct marketing product distribution is conducted through the Company's direct marketing customer sales and contact center, through its distribution facility located in Mexico, Missouri and by its vendors. Both segments of the Company sell similar products, although not all Company products are fully available through both segments.

All costs directly attributable to the direct marketing segment are so charged 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 30, 2007 and July 1, 2006 (in thousands).

Thirteen-weeks:

	Net Sales		Income (Loss) Before Taxes and Discontinued Operations	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Reportable segment:				
Retail	\$ 79,060	\$ 74,521	\$ (7,210)	\$ (8,374)
Direct Marketing	20,865	16,801	3,198	1,807
Reconciling items:				
Interest expense	---	---	(6,559)	(6,526)
Interest income	---	---	324	348
Consolidated:	<u>\$ 99,925</u>	<u>\$ 91,322</u>	<u>\$ (10,247)</u>	<u>\$ (12,745)</u>

Twenty-six weeks:

	Net Sales		Income (Loss) Before Taxes and Discontinued Operations	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Reportable segment:				
Retail	\$ 149,477	\$ 138,549	\$ (19,966)	\$ (23,365)
Direct Marketing	33,588	29,482	3,975	1,921
Reconciling items:				
Interest expense	---	---	(13,180)	(12,970)
Interest income	---	---	1,014	993
Consolidated:	<u>\$ 183,065</u>	<u>\$ 168,031</u>	<u>\$ (28,157)</u>	<u>\$ (33,421)</u>

7. Joint Ventures

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 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. The Dallas Fort Worth, Las Vegas and Chicago ventures have been consolidated since inception (Fiscal 2005 for the Dallas Fort Worth venture, Fiscal 2003 for the Las Vegas venture and Fiscal 2001 for the Chicago venture) based on the Company's ownership of the majority voting interests.

Under the requirements of the 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.

8. Post-Retirement Pension and Medical Benefit Plans

The Company contributed more than the minimum required amount to the Brookstone pension plan for Fiscal 2006. As a result, there is no required contribution during Fiscal 2007, but it is the intention of the Company to contribute up to a maximum of \$500,000 to maintain a funded status that is more than the minimal required level under ERISA.

The components of net periodic pension (income) cost were as follows:

	Thirteen-weeks Ended		Twenty-Six weeks Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Service cost	\$ 31,000	\$ 31,000	\$ 62,000	\$ 62,000
Interest cost	83,000	78,000	161,000	156,000
Expected return on plan assets	(100,000)	(77,000)	(178,000)	(154,000)
Recognized net actuarial loss	---	---	---	---
Net periodic benefit cost	<u>\$ 14,000</u>	<u>\$ 32,000</u>	<u>\$ 45,000</u>	<u>\$ 64,000</u>

The components of the net periodic post-retirement medical benefits (income) cost were:

	Thirteen-weeks Ended		Twenty-Six weeks Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Service cost	\$ (3,000)	\$ 4,000	\$ 1,000	\$ 8,000
Interest cost	5,000	15,000	18,000	30,000
Amortization of prior service cost	(18,000)	---	(18,000)	---
Recognized net actuarial loss	---	---	---	---
Net periodic benefit (income) cost	<u>\$ (16,000)</u>	<u>\$ 19,000</u>	<u>\$ 1,000</u>	<u>\$ 38,000</u>

## 9. Debt

In October 2005, the Company issued \$185.0 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 and October of each year commencing April 15, 2006.

In March 2007, the Company amended its senior secured credit facility, which provides for loans in an aggregate amount of up to \$125.0 million (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, as amended, bear interest at a rate equal to the sum of LIBOR (London Interbank Offer Rate) plus the applicable margin or, at our option, the alternate base rate (which will be the higher of (x) the Bank of America, N.A. prime rate and (y) the federal funds rate plus 0.50%) plus the applicable margin. The applicable margin (other than with respect to the stretch loan subfacility) 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 30, 2007, the applicable margin 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 December 31, 2006 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.

## 10. Income Taxes

The Company adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109* (“FIN 48”), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, for the Fiscal year beginning December 31, 2006. The adoption of FIN 48 did not have a material impact on the financial position or results of operations of the Company.

At December 31, 2006, the Company had approximately \$1.5 million of unrecognized tax benefits, of which \$1.0 million would favorably affect our effective tax rate, if recognized. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2006, the Company had approximately \$353 thousand of accrued interest and penalties related to uncertain tax positions. The Company does not expect any material changes to unrecognized tax positions within the next twelve months.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2003. With respect to state jurisdictions, the Company is no longer subject to income tax examinations for years before 2002.

For the thirteen-week period ended June 30, 2007, the Company recorded an income tax benefit on continuing operations of \$3.9 million, as compared to an income tax benefit on continuing operations of \$1.9 million in the second quarter of Fiscal 2006. For the twenty-six week period the Company recorded an income tax benefit on continuing operations of \$10.7 million, as compared to an income tax benefit on continuing operations of \$11.5 million in Fiscal 2006. 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 37.6% and 14.6% for the thirteen-week period ended June 30, 2007 and July 1, 2006, respectively. The effective tax rate on continuing operations was 37.9% and 34.4% for the twenty-six week period ended June 30, 2007 and July 1, 2006, respectively. The increase in the effective tax rate for Fiscal 2007 from Fiscal 2006 is due to the use of different estimated effective tax rates for each year.

## 11. Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*. This statement allows an entity to choose to measure many financial instruments and certain other items at fair value. The objective of this statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. The Company has not yet completed its evaluation of the impact that the adoption of SFAS No. 159 would have on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"), an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 158 requires an employer to recognize the funded status of its defined benefit pension and postretirement plans on its statement of financial position and to recognize as a component of other comprehensive income, net of taxes, the gains or losses and prior service credits that arise during the period but are not recognized as components of net periodic benefit costs. Upon initial adoption, SFAS 158 requires the recognition of previously unrecognized actuarial gains and losses, prior service costs or credits and net transition amounts within accumulated other comprehensive income, net of tax. The provisions of SFAS 158 are effective for fiscal years ending after June 15, 2007. The Company has not yet completed its evaluation of the impact that the adoption of SFAS No. 158 would have on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157 *Fair Value Measurements* ("SFAS 157"). SFAS 157 provides guidance for, among other things, the definition of fair value and the methods used to measure fair value. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. The Company has not yet completed its evaluation of the impact that the adoption of SFAS No. 157 would have on its financial position or results of operations.

## 12. Condensed Consolidating Financial Information

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

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

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

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor	Eliminations	Consolidated
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ --	\$ 11,694	\$ 237	\$ 6	\$ ---	\$ 11,937
	-					
Receivables, net	---	3,491	2,419	2,549	(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	6,918	---	---	9,364
Total current assets	---	48,567	92,944	2,758	482	144,751
Property, plant and equipment, net	---	18,259	50,923	988	---	70,170
Intangible assets, net	---	130,896	---	---	---	130,896
Goodwill	---	190,329	---	---	---	190,329
Other assets	241,214	141,480	(29,247)	---	(338,680)	14,767
Total assets	\$241,214	\$529,531	\$ 114,620	\$ 3,746	\$ (338,198)	\$ 550,913
<b>Liabilities and Shareholder's Equity</b>						
<b>Current liabilities:</b>						
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	---	48,080	(2,725)	---	---	45,355
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	\$529,531	\$ 114,620	\$ 3,746	\$ (338,198)	\$ 550,913

Brookstone, Inc.  
Condensed Consolidating Balance Sheet  
December 30, 2006  
(In thousands)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor	Eliminations	Consolidated
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ ---	\$ 71,303	\$ 429	\$ 6	\$ ---	\$ 71,738
Receivables, net	---	3,811	6,028	2,639	(6)	12,472
Merchandise inventories	---	10,619	84,920	193	(479)	95,253
Deferred income taxes, net	---	(103)	3,944	---	---	3,841
Prepaid expenses	---	1,774	5,704	---	---	7,478
Total current assets	---	87,404	101,025	2,838	(485)	190,782
Property, plant and equipment, net	---	18,284	53,168	1,186	---	72,638
Intangible assets, net	---	131,354	---	---	---	131,354
Goodwill	---	190,329	---	---	---	190,329
Other assets	263,895	139,822	(42,903)	---	(344,734)	16,080
Total assets	<u>\$263,895</u>	<u>\$567,193</u>	<u>\$ 111,290</u>	<u>\$ 4,024</u>	<u>\$ (345,219)</u>	<u>\$ 601,183</u>
<b>Liabilities and Shareholder's Equity</b>						
<b>Current liabilities:</b>						
Accounts payable	\$ ---	\$ 23,410	\$ ---	\$ ---	\$ ---	\$ 23,410
Other current liabilities	---	34,180	22,060	6	(6)	56,240
Total current liabilities	---	57,590	22,060	6	(6)	79,650
Other long-term liabilities	---	9,100	20,357	---	(8,503)	20,954
Long-term debt	---	188,560	1,693	---	---	190,253
Deferred income taxes	---	48,048	(2,731)	---	---	45,317
Commitments and contingencies	---	---	---	---	---	---
Other party interests in consolidated entities	---	---	---	---	1,114	1,114
Total shareholder's equity	263,895	263,895	69,911	4,018	(337,824)	263,895
Total liabilities and shareholder's equity	<u>\$263,895</u>	<u>\$567,193</u>	<u>\$ 111,290</u>	<u>\$ 4,024</u>	<u>\$ (345,219)</u>	<u>\$ 601,183</u>

Brookstone, Inc.  
Condensed Consolidating Balance Sheet  
July 1, 2006  
(In thousands)  
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor	Eliminations	Consolidated
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ ---	\$ 23,191	\$ 407	\$ 6	\$ ---	\$ 23,604
Receivables, net	---	4,378	3,205	2,325	(245)	9,663
Merchandise inventories	---	15,013	58,609	192	(38)	73,776
Deferred income taxes, net	---	3,831	12,873	---	---	16,704
Prepaid expenses	---	1,810	7,193	---	---	9,003
<b>Total current assets</b>	---	48,223	82,287	2,523	(283)	132,750
Property, plant and equipment, net	---	18,895	54,344	1,392	---	74,631
Intangible assets, net	---	131,813	---	---	---	131,813
Goodwill	---	192,453	---	---	---	192,453
Other assets	240,311	135,850	4,249	---	(363,110)	17,300
<b>Total assets</b>	<b>\$240,311</b>	<b>\$527,234</b>	<b>\$ 140,880</b>	<b>\$ 3,915</b>	<b>\$ (363,393)</b>	<b>\$ 548,947</b>
<b>Liabilities and Shareholder's Equity</b>						
<b>Current liabilities:</b>						
Accounts payable	\$ ---	\$ 12,562	\$ ---	\$ ---	\$ ---	\$ 12,562
Other current liabilities	---	30,884	10,213	246	(245)	41,098
<b>Total current liabilities</b>	---	43,446	10,213	246	(245)	53,660
Other long-term liabilities	---	8,499	80,497	---	(69,296)	19,700
Long-term debt	---	188,806	1,745	---	---	190,551
Deferred income taxes	---	46,172	(2,742)	---	---	43,430
Commitments and contingencies	---	---	---	---	---	---
Other party interests in consolidated entities	---	---	---	---	1,296	1,296
<b>Total Shareholder's equity</b>	<b>240,311</b>	<b>240,311</b>	<b>51,167</b>	<b>3,669</b>	<b>(295,148)</b>	<b>240,310</b>
<b>Total liabilities and Shareholder's equity</b>	<b>\$240,311</b>	<b>\$527,234</b>	<b>\$ 140,880</b>	<b>\$ 3,915</b>	<b>\$ (363,393)</b>	<b>\$ 548,947</b>

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

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor	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 continuing 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	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 continuing 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 Operations  
For the thirteen-weeks ended July 1, 2006  
(In thousands)  
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor	Eliminations	Consolidated
Net sales	\$ ---	\$ 12,455	\$ 74,983	\$ 3,987	\$ (103)	\$ 91,322
Cost of sales	---	8,782	55,736	1,995	(103)	66,410
Gross profit	---	3,673	19,247	1,992	---	24,912
Selling, general and administrative expenses	---	5,130	24,936	1,054	---	31,120
Other expenses (income)	---	(3,659)	3,659	---	---	---
Income (loss) from continuing operations	---	2,201	(9,348)	938	---	(6,208)
Interest expense, net	---	6,071	105	2	---	6,178
Income (loss) before taxes, other party interests in consolidated entities and discontinued operations	---	(3,869)	(9,453)	936	---	(12,386)
Other party interests in consolidated entities	---	---	---	---	359	359
Income (loss) before taxes and discontinued operations	---	(3,869)	(9,453)	936	(359)	(12,745)
Income tax benefit	---	(1,277)	(582)	---	---	(1,859)
Equity income in subsidiaries, net of tax	(10,962)	(8,370)	577	---	18,755	---
Loss on discontinued operations, net of tax benefit	---	---	(76)	---	---	(76)
Net income (loss)	\$(10,962)	\$(10,962)	\$ (8,370)	\$ 936	\$ 18,396	\$ (10,962)

Brookstone, Inc.  
 Condensed Consolidating Statement of Operations  
 For the twenty-six weeks ended July 1, 2006  
 (In thousands)  
 (Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor	Eliminations	Consolidated
Net sales	\$ ---	\$ 22,826	\$ 137,528	\$ 7,209	\$ 468	\$ 168,031
Cost of sales	---	15,632	107,639	3,612	468	127,351
Gross profit	---	7,194	29,889	3,597	---	40,680
Selling, general and administrative expenses	---	11,474	48,104	1,900	---	61,478
Other expenses (income)	---	(8,134)	8,134	---	---	---
Income (loss) from continuing operations	---	3,854	(26,349)	1,697	---	(20,798)
Interest expense, net	---	11,733	239	5	---	11,977
Income (loss) before taxes, other party interests in consolidated entities and discontinued operations	---	(7,879)	(26,588)	1,692	---	(32,775)
Other party interests in consolidated entities	---	---	---	---	646	646
Income (loss) before taxes and discontinued operations	---	(7,879)	(26,588)	1,692	(646)	(33,421)
Income tax benefit	---	(2,712)	(8,801)	---	---	(11,513)
Equity income in subsidiaries, net of tax	(22,226)	(17,059)	1,046	---	38,239	---
Loss on discontinued operations, net of tax benefit	---	---	(318)	---	---	(318)
Net income (loss)	\$(22,226)	\$ (22,226)	\$ (17,059)	\$ 1,692	\$ 37,593	\$ (22,226)

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	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)	---
Change in other assets	---	(19,573)	(12,558)	(1,307)	33,252	(186)
Change in other long-term liabilities	---	1,044	32,026	---	(32,285)	785
Changes in working capital:						
Accounts receivable, net	---	320	3,609	89	---	4,018
Merchandise inventories	---	(8,842)	5,502	(10)	(967)	(4,317)
Prepaid expenses	---	(672)	(1,214)	---	---	(1,886)
Accounts payable	---	(5,424)	---	---	---	(5,424)
Other current liabilities	---	(8,484)	(12,234)	---	---	(20,718)
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

Brookstone, Inc.  
Condensed Consolidating Statement of Cash Flows  
For the twenty-six weeks ended July 1, 2006  
(In thousands)  
(Unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor	Eliminations	Consolidated
Cash flows from operating activities:						
Net income (loss)	\$(22,226)	\$(22,226)	\$ (17,059)	\$ 1,692	\$ 37,593	\$ (22,226)
Adjustments to reconcile net income (loss) to net cash used for operating activities						
Depreciation and amortization	---	1,794	5,058	231	---	7,083
Amortization of debt issuance cost	---	1,090	---	---	---	1,090
Amortization of debt discount	---	154	---	---	---	154
Amortization of revaluation of leases	---	---	(102)	---	---	(102)
Share-based compensation expense	---	503	---	---	---	503
Other party interests in consolidated entities	---	---	---	---	646	646
Deferred income taxes, net	---	(2,712)	(9,045)	---	---	(11,757)
Equity income in subsidiary	22,226	17,059	(1,046)	---	(38,239)	---
Decrease (increase) in other assets	---	(22,229)	53,062	(930)	(28,890)	1,013
Decrease (increase) in other long-term liabilities	---	1,240	(28,846)	---	28,840	1,234
Changes in working capital:						
Accounts receivable, net	---	(1,136)	2,809	(430)	---	1,243
Merchandise inventories	---	(11,196)	13,125	(39)	50	1,940
Prepaid expenses	---	2,425	(2,311)	---	---	114
Accounts payable	---	(9,450)	---	---	---	(9,450)
Other current liabilities	---	(4,987)	(11,673)	2	---	(16,658)
Net cash provided by (used for) operating activities	---	(49,671)	3,972	526	---	(45,173)
Cash flows from investing activities:						
Expenditures for property, plant and equipment, net	---	(1,020)	(3,908)	---	---	(4,928)
Net cash used for investing activities	---	(1,020)	(3,908)	---	---	(4,928)
Cash flows from financing activities:						
Payments of debt issuance costs	---	(349)	---	---	---	(349)
Payments on long-term debt and capital lease	---	(400)	(51)	---	---	(451)
Repurchase of equity interest	---	(1,520)	---	---	---	(1,520)
Capital contributions	---	225	---	---	---	225
Cash distributions to joint venture partners	---	---	---	(526)	---	(526)
Net cash used for financing activities	---	(2,044)	(51)	(526)	---	(2,621)
Net increase (decrease) in cash and cash equivalents	---	(52,735)	13	---	---	(52,722)
Cash and cash equivalents at beginning of period	---	75,926	394	6	---	76,326
Cash and cash equivalents at end of period	\$ ---	\$ 23,191	\$ 407	\$ 6	\$ ---	\$ 23,604

## 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. Our portfolio is composed of the Brookstone and Hard-to-Find Tools brands. The Brookstone brand includes products in four main categories: home and office, travel and auto, outdoor living, and health and fitness, and it consists of approximately 800 Stock-Keeping Units, or "SKUs". 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 \$4,500.00. The Hard-to-Find Tools brand, which operates primarily through catalogs and the internet, features products that offer innovative solutions to common problems and tasks around the home and garden.

### 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"). For the thirteen-week periods ended June 30, 2007 and July 1, 2006, Gardeners Eden operations resulted in a net loss of \$70 thousand (net of tax benefit of \$39 thousand) and \$76 thousand (net of tax benefit of \$37 thousand), respectively. For the twenty-six week periods ended June 30, 2007 and July 1, 2006, Gardeners Eden operations resulted in a net loss of \$141 thousand (net of tax benefit of \$79 thousand) and \$318 thousand (net of tax benefit of \$173 thousand), respectively. Cash flows from this operation are expected to continue throughout Fiscal 2007, due to an ongoing lease arrangement. These continuing cash flows are not significant when compared to the expected cash flows of the Gardeners Eden business, had the business not been discontinued. The following Management's Discussion and Analysis of Results of Operations excludes the discontinued operations of Gardener's Eden.

### Overview

Net sales for the thirteen-week period ended June 30, 2007 were \$99.9 million, an increase of 9.4% compared to the second fiscal quarter of 2006. Same store sales for the thirteen-week period ended June 30, 2007 increased 2.1% compared with the same period in 2006. The Company experienced increased performances in the Personal Care, Bedding, Massage, Stationary and Comfort categories offset by decreases in the Home Comfort, Lighting, Kitchen and Games 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 adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109* ("FIN 48"), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, for the Fiscal year beginning December 31, 2006. The adoption of FIN 48 did not have a material impact on the financial position or results of operations of the Company.

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 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Revenues, net				
Retail segment	79.1%	81.6%	81.7%	82.5%
Direct segment	20.9	18.4	18.3	17.5
Total revenues	100.0	100.0	100.0	100.0
Cost and expenses:				
Cost of sales	71.4	72.7	74.0	75.8
Gross profit	28.6	27.3	26.0	24.2
Selling, general and administrative expenses	32.2	34.1	34.3	36.6
Loss from continuing operations	(3.6)	(6.8)	(8.3)	(12.4)
Interest expense, net	6.2	6.8	6.6	7.1
Loss before taxes and other party interests in consolidated entities and discontinued operations	(9.8)	(13.6)	(14.9)	(19.5)
Other party interests in consolidated entities	0.4	0.4	0.4	0.4
Loss before taxes and discontinued operations	(10.2)	(14.0)	(15.3)	(19.9)
Income tax benefit	(3.8)	(2.1)	(5.8)	(6.9)
Loss on discontinued operations, net of tax	(0.1)	(0.1)	(0.1)	(0.2)
Net loss	(6.5)%	(12.0)%	(9.6)%	(13.2)%

### Results of Operations

For the thirteen-week period ended June 30, 2007, net sales increased 9.4% to \$99.9 million as compared to the second quarter of 2006. Net sales in the retail segment for the thirteen-week period increased approximately \$4.5 million, or 6.1%, to \$79.0 million as compared to \$74.5 million for the second quarter of 2006. The change was primarily comprised of; an increase in same store sales versus the second quarter in 2006, which was driven by increases in the Personal Care, Bedding, Massage, Stationary and Comfort categories, offset by decreases in the Home Comfort, Lighting, Kitchen and Games categories. In addition, revenue during the thirteen-week period ended June 30, 2007 was impacted by decreased returns from customers, increased revenues generated from the opening of 13 new stores and decreased revenue resulting from eight store closings subsequent to the second quarter of Fiscal 2006. For the twenty-six week period ended June 30, 2007, net sales in the retail segment increased 7.9%, or \$10.9 million, to \$149.5 million. This change was comprised of a increase in same store sales versus the second quarter in 2006, which was driven by increases in the Personal Care, Bedding, Massage, Stationary and Comfort categories, offset by decreases in the Home Comfort, Lighting, Kitchen and Games categories. In addition, revenue during the twenty-six week period ended June 30, 2007 was impacted by decreased returns from customers, increased revenues generated from the opening of 13 new stores and decreased revenue resulting from eight store closings subsequent to the second quarter of Fiscal 2006. The total number of Brookstone stores open on June 30, 2007 was 312 versus 307 on July 1, 2006.

For the thirteen-week period ended June 30, 2007, direct marketing sales increased 24.2% to \$20.9 million as compared to the second quarter of 2006, primarily driven by increased internet sales and increased catalog productivity related to changes in our product assortment and mailing strategies. The increase includes an increase of \$415 thousand generated from revenues from customers for shipping and handling. For the twenty-six week period ended June 30, 2007, direct marketing sales increased 13.9% to \$33.6 million as compared to the twenty-six week period of Fiscal 2006, primarily driven by increased internet sales and increased catalog productivity related to changes in our product assortment and mailing strategies. The increase includes an increase of \$604 thousand generated from revenues from customers for shipping and handling.

For the thirteen-week period ended June 30, 2007, gross profit as a percentage of net sales increased 1.3% to 28.6% versus 27.3% for the second quarter of 2006. This increase is a result of a decrease in occupancy costs as a percentage of sales of 0.9%, an increase in product margins as a percentage of sales of 0.8%, offset by an increase of 0.4% 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 30, 2007, gross profit as a percentage of net sales increased 1.8% to 26.0% versus 24.2% for the twenty-six week period in Fiscal 2006. This increase is comprised of a decrease in occupancy costs as a percentage of sales of 1.2%, an increase in product margins as a percentage of sales of 0.9%, offset by an increase in order postage expense as a percentage of sales of .3%. Occupancy costs as a percentage of net sales decreased in the thirteen-week and twenty-six week periods ended June 30, 2007, primarily as a result of the increase in sales. The increases in product margins resulted primarily from decreased product costs, partially offset by an increase in markdowns.

For the thirteen-week period ended June 30, 2007, selling, general and administrative expenses as a percentage of net sales decreased 1.9% to 32.2% versus 34.1% for the second quarter of Fiscal 2006 primarily as a result of decreased payroll costs as a percentage of sales of 1.9%, decreased advertising as a percentage of sales of 0.9%, offset by an increase in professional services as a percentage of sales of .4% and an increase in general administrative costs as a percentage of sales of 0.5%. For the twenty-six week period ended June 30, 2007, selling, general and administrative expenses as a percentage of net sales decreased 2.3% to 34.3% versus 36.6% for the twenty-six week period in Fiscal 2006 primarily as a result of decreased payroll costs as a percentage of sales of 1.9%, decreased advertising as a percentage of sales of 0.7%, offset by an increase in professional services as a percentage of sales of 0.3%. The payroll decrease in both periods was driven by the increase in same store sales, and the advertising expense decrease is related to a revised catalog circulation strategy.

Net interest expense for the thirteen-week period ended June 30, 2007 was \$6.2 million, compared to \$6.2 million for the second quarter of Fiscal 2006. For the twenty-six week period ended June 30, 2007, net interest expense was \$12.2 million as compared to \$12.0 million for the twenty-six week period in Fiscal 2006.

For the thirteen-week period ended June 30, 2007, the Company recorded an income tax benefit on continuing operations of \$3.9 million, or 3.8% of net sales, as compared to an income tax benefit on continuing operations of \$1.9 million, or 2.1% of net sales, in the second quarter of Fiscal 2006. For the twenty-six week period the Company recorded an income tax benefit on continuing operations of \$10.7 million or 5.8%, as compared to an income tax benefit on continuing operations of \$11.5 million or 6.9% in Fiscal 2006. 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 37.6% and 14.6% for the thirteen-week period ended June 30, 2007 and July 1, 2006, respectively. The effective tax rate on continuing operations was 37.9% and 34.4% for the twenty-six week period ended June 30, 2007 and July 1, 2006, respectively. The increase in the effective tax rate for Fiscal 2007 from Fiscal 2006 is due to the use of different estimated effective tax rates for each year.

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 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. Other Party Interests in Consolidated Entities represents the ownership interests in the net income for these joint ventures belonging to the Company's joint venture partners (the 35% ownership in the Dallas Fort Worth venture, the 20% ownership interest in the Las Vegas venture, the 30% ownership interest in the Chicago venture and the 51% ownership interest in the Atlanta venture). For the thirteen-weeks ended June 30, 2007 and July 1, 2006, other party interests in consolidated entities totaled \$379 thousand and \$359 thousand, respectively. For the twenty-six week periods, other party interests in consolidated entities totaled \$686 thousand and \$646 thousand, respectively.

As a result of the foregoing, for the thirteen-week and twenty-six week periods ended June 30, 2007 the Company reported a loss from continuing operations of \$3.6 million and \$15.3 million, respectively, as compared to a loss from continuing operations of \$6.2 million and \$20.8 million for the thirteen-week and twenty-six week periods ended July 1, 2006, respectively. After discontinued operations, for the thirteen-week and twenty-six week periods ended June 30, 2007, the Company reported a net loss of \$6.4 million and \$17.6 million, respectively, as compared to a net loss of \$11.0 million and \$22.2 million for the thirteen-week and twenty-six week periods ended July 1, 2006, respectively

#### Financial Condition, Liquidity and Capital Resources

##### 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 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 anticipated to open or be remodeled in the fiscal year. In Fiscal 2007, the Company anticipates opening approximately 15 to 20 new Brookstone stores and remodeling approximately 8 to 10 locations.

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).

##### Cash flows for the twenty-six week period ended July 1, 2006

For the twenty-six week period ended July 1, 2006, the Company's cash position decreased \$52.7 million to \$23.6 million. Cash used for operations totaled \$45.2 million primarily as a result of payments made for merchandise purchases during holiday selling season, the Company's net loss from operations and a decrease in other current liabilities resulting primarily from the payment of sales taxes.

Cash of \$4.9 million was utilized to fund capital expenditures in the twenty-six week period ended July 1, 2006, primarily related to the opening of eight new Brookstone stores, the remodeling of three Brookstone stores and construction related to stores anticipated to open or be remodeled in the fiscal year.

Net cash used for financing activities totaled approximately \$2.6 million in the twenty-six week period ended July 1, 2006, reflecting a capital distribution to our parent company (\$1.5 million), payments on long-term debt (\$451 thousand) and distributions to joint venture partners (\$526 thousand).

##### Other Balance Sheet Changes

Receivables decreased 32.2% to \$8.5 million at June 30, 2007, as compared to \$12.5 million at December 30, 2006, primarily as a result of the collection of year-end customer financed sales and credit card sales and construction allowances due from landlords. Merchandise inventories increased 4.5% to \$99.6 million at June 30, 2007, as compared to \$95.3 million at December 30, 2006. Deferred income taxes increased \$11.6 million as a result of the Company's recording an income tax benefit related to the loss before taxes incurred by the Company.

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 30, 2007, December 30, 2006 and July 1, 2006, the Company had no cash borrowings outstanding under its senior secured credit facility.

### Cash flows for the remainder of Fiscal 2007

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 2007. In Fiscal 2007, the Company anticipates funding a maximum of \$500,000 for its obligation under its defined pension plan. In July 2007, the Company paid the remaining amounts owed to certain former executives, relating to their equity interest repurchases, in the aggregate amount of approximately \$1,828,000.

### 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 FIN 48, with respect to accounting for uncertainty in income taxes, there have been no material changes to our application of critical accounting policies and significant judgments and estimates since December 30, 2006.

### 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. Statements about a sale of its Gardeners Eden business constitute forward-looking statements. Any statements in this release made in connection with the merger are not forward-looking statements within the meaning of the safe harbor provisions of the Reform Act. The Company may not be able to complete a sale on acceptable terms because of a number of factors, including failure to reach agreement with a purchaser. 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 2006 annual report on Form 10-K filed with the SEC and posted on the Company's website at [www.brookstone.com](http://www.brookstone.com) also contains information about market risks under "Item 7A. Quantitative and Qualitative Disclosures About Market Risk." There have been no material changes in our exposure to market risks during the thirteen-weeks ended June 30, 2007.

**ITEM 4.           *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 30, 2007 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.*

On September 15, 2004, a putative class action was commenced against us in the California Superior Court in Los Angeles County. The complaint, as amended, alleged, among other things, that we engaged in unfair business practices under California's Unfair Competition Laws in connection with the manufacture and sale of certain air purifiers. The lawsuit sought unspecified damages and other relief. In December 2006 the parties agreed to settle the plaintiffs' claims, and on May 15, 2007, the court granted final approval of the settlement, which included the payment of \$650 thousand by the Company under the terms of the settlement. There was no finding or admission of fault by us under the settlement.

On June 23, 2005, we were served with a lawsuit in the United States District Court for the Southern District of Alabama (Southern Division), styled as a class action on behalf of all consumers who purchased a certain air purifier from us alleging, among other things, that such products were not suitable for the purposes for which they were intended. The lawsuit sought unspecified damages. On October 18, 2006, the parties agreed to settle the plaintiff's claims, and on May 16, 2007, the court granted final approval of the settlement, which included the payment of \$1,200 thousand by the Company under the terms of the settlement. There was no finding or admission of fault by us under the settlement.

We are also involved in various legal proceedings incidental to the conduct of our business. We do not believe 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 2006 filed with the SEC and posted on our web site [www.Brookstone.com](http://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 a category of products 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 brands 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 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 could be required to make significant capital expenditures to relocate our retail stores.***

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. If we are unable to renew such leases, we could be required to make significant capital expenditures to relocate our retail stores.

***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 key officers and employees. The loss of 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, 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 are 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 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 2006, we had one vendor who supplied products representing approximately 13% of net sales, with our 10 largest vendors representing approximately 42% 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 are purchasing an increasing portion of our merchandise from foreign vendors, including, but not limited to, Asia. Although we expect this strategy to increase profit margins for these products, 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 experienced volatility, the recurrence of which could have a material adverse impact on our operations and results. There is increasing political pressure on China to permit the exchange rate of its currency, the Chinese Yuan ("CNY"), to float 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 who ultimately 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 expand the Brookstone concept into Asia and may also expand into other 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 and our distribution and labor costs are subject to availability constraints and price volatility, which could result in increased costs. 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. 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.***

In recent years, 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.

***Government regulation and other uncertainties relating to the internet and online commerce could negatively impact our internet business.***

As a greater proportion of our sales are made via the internet, and as we begin to look more to that channel to increase overall sales, we will become increasingly subject to the uncertainties inherent in the developing area of e-commerce. Such uncertainties include, but are not limited to, the extent to which our customers will adopt the internet as their method of purchase, the effect that government regulation of the internet (or lack thereof) will have on the internet as a medium of commerce, as well as the reliability, stability and security of the internet and World Wide Web.

***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, avian flu, 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, transportation and shipping, store closures, reduced sales, performance delays, product shortages and increased costs, all of which are beyond our control and cannot be anticipated. For example, Hurricane Katrina forced us to close five of our stores, temporarily. All five stores have since been re-opened. 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 96.6% 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. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of our Sponsors might conflict with the interests of other securityholders of the Company. 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 30, 2007, we had total indebtedness of \$190.9 million (of which \$183.4 million consisted of the senior secured notes, net of discount on the notes of \$1.6 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.

***We are not an accelerated filer within the meaning of Rule 12b-2 of the Exchange Act and are not be subject to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 until our Fiscal year ending December 29, 2007.***

Beginning with our annual report for Fiscal year 2007, we will be subject to the requirement of Section 404 of the Sarbanes-Oxley Act of 2002 that management annually review, assess and disclose the effectiveness of the Company's internal controls over financial reporting, and, beginning with Fiscal year 2008, we will be subject to the requirement under Section 404 to obtain a report by our independent auditors addressing management's evaluation. To the extent that we do make the assessments and disclosures as to our internal controls over financial reporting provided for by Section 404 of the Sarbanes-Oxley Act of 2002, investors may 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 10, 2007

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>
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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 30, 2007 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 10, 2007

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 30, 2007 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 10, 2007

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 30, 2007 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 30, 2007 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 10, 2007

**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 30, 2007 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 30, 2007 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 10, 2007