Brookstone Announces Second Quarter 2013 Financial Results and Increase in its Credit Facilities of up to $25 Million

MERRIMACK, NH, August 13, 2013 -- Innovative product development company and multi-channel lifestyle retailer Brookstone, Inc. announced today that, for the second quarter ended June 29, 2013, net sales decreased 11.8% to $90.3 million and comp sales decreased 8.5% while Adjusted EBITDA declined to ($6.9) million as compared to ($2.5) million for the second quarter ended June 30, 2012. For the twenty-six week period ended June 29, 2013, consolidated net sales decreased 6.0% to $180.0 million and Adjusted EBITDA declined to ($14.7) million as compared to ($11.5) million for the twenty-six week period ended June 30, 2012.

Brookstone also announced today that it has entered into an amended banking facility with Wells Fargo Capital Finance, part of Wells Fargo & Company (NYSE: WFC), which will provide up to $25 million of additional availability as the Company looks forward to the fourth quarter holiday selling season. This new facility includes an expansion of Brookstone's current line of credit by $10 million to $110 million, and additional short term funds of up to $15 million.

"We are pleased to have been able to complete this important financing for Brookstone which will allow them the financial flexibility to make strategic business decisions" said James Dore, President of the Commercial and Retail Finance Group at Wells Fargo Capital Finance. "The senior management team has been incredible to work with and we look forward to supporting this specialty retailer."

For the second quarter of 2013, net sales in the e-Commerce channel increased $0.7 million, or 4.3%, to $17.6 million, as compared to the same period last year. For the twenty-six week period ended June 29, 2013, net sales in the e-Commerce channel increased $2.7 million, or 8.3%, to $35.2 million, as compared to the twenty-six week period ended June 30, 2012. These increases were due to additional revenue resulting from a larger selection of quality third party products on the Company's website and expansion of successful internet marketing programs.

Net sales in the Alternative Distribution channel decreased $1.5 million, or 16.3%, to $7.7 million for the second quarter ended June 29, 2013, as compared to the second quarter of 2012. For the twenty-six week period ended June 29, 2013, net sales in the Alternative Distribution channel decreased $0.1 million, or 0.4%, to $15.1 million as compared the twenty-six week period ended June 30, 2012. While net revenue in this channel decreased for the quarter due in part to some shifts in customer orders to the third quarter, this revenue decline was off-set somewhat by a significantly improved margin rate.

In the Retail channel, for the second quarter of 2013, net sales decreased $11.4 million, or 14.9%, to $65.0 million and same-store sales decreased 10.6% as compared to the second quarter of last year. For the twenty-six week period ended June 29, 2013, net sales in the Retail channel decreased $14.2 million, or 9.9%, to $129.7 million and same-store sales decreased 6.4% as compared to the twenty-six week period ended June 30, 2012. The net sales results in the Retail channel were impacted by softness in our Mobile Technology product, as well as a decrease in the number of stores from 281 to 259 as compared to the second quarter of 2012. The same-store sales decline of 10.6% for the second quarter compares to an 11.6% increase during the same period last year.

Cash on-hand at the end of the second quarter of 2013 was approximately $1.2 million as compared to $1.2 million at the end of the second quarter of 2012. As of June 29, 2013, cash borrowings were approximately $30.9 million, with approximately $22.6 million in borrowings available under the revolving credit facility. Although inventories at the end of the second quarter increased approximately $16.3 million or 21.3% from the second quarter of 2012, we believe that stock levels remain satisfactory, inventory quality is strong, and total inventory levels are in line with historical norms and expectations.

Jim Speltz, President and CEO commented, "We are returning to our roots, offering an assortment of innovative products and providing excellent customer service. With our expanded Wells Fargo Bank credit facility in place, we expect to be able to refocus our product offerings for the all-important fourth quarter and take better advantage in future gifting periods. Although we are disappointed with our second quarter performance in our retail stores, we are encouraged by an improved sales trend and recent results during July and early August. We believe the continued roll-out of our new store productivity and training initiative, as well as the launch of several new products in the third quarter, have helped to drive much of this improvement."

Mr. Speltz continued, “The increase in the Wells Fargo Bank credit facilities is a vote of confidence in Brookstone’s continued progress over the years in delivering innovative products, providing first rate customer service, and in expanding our airport presence and wholesale relationships. This new banking facility will provide us with improved financial flexibility to grow our long-term franchise. We look forward to building on the strength of the Brookstone brand.”

Non-GAAP Financial Information

EBITDA and Adjusted EBITDA are measures used by management to evaluate the Company’s ongoing operations and as a general indicator of the Company’s operating cash flow. The Company defines EBITDA as net income, plus interest expense, provision for income taxes, and depreciation and amortization. The Company’s definition of Adjusted EBITDA is consistent with the definition of “Consolidated EBITDA” as noted in our Credit Agreement for purposes of certain financial covenant calculations, which is EBITDA minus extraordinary or one-time gains and plus extraordinary or one-time non-cash losses; plus non-cash items that reduce consolidated net income during the period; and purchase accounting adjustments. Management believes EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the comparative evaluation of companies. Because not all companies use identical calculations, the Company's presentation of EBITDA may not be comparable to similarly titled measures of other companies. EBITDA is not a recognized term under GAAP and does not purport to be an alternative to either net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow for management’s discretionary use as it does not reflect certain cash requirements such as interest payments, tax payments and debt service requirements. The Company excludes certain non-cash items from Adjusted EBITDA as noted above, as the Company believes this provides an enhanced indicator of operating cash flow. We have provided a reconciliation of Adjusted EBITDA to GAAP net income below (in thousands):

Brookstone, Inc.
Reconciliation of Net Loss to
Adjust EBITDA
(In thousands)
(Unaudited)

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	Thirteen weeks ended		Twenty-six weeks ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net loss attributable to Brookstone	$ (13,350)	$ (12,632)	$ (28,062)	$ (29,336)
Interest expense	4,204	4,267	8,451	8,675
Income tax provision (benefit)	116	(97)	303	92
Depreciation and Amortization	2,093	2,306	4,434	4,715
EBITDA	(6,937)	(6,156)	(14,874)	(15,854)
Share-based compensation	-	3,564	38	4,153
Straight-line rent adjustment	43	81	98	162
Adjusted EBITDA	$ (6,894)	$ (2,511)	$ (14,738)	$ (11,539)

Brookstone, Inc. is an innovative product development and specialty lifestyle retail company that currently operates approximately 260 Brookstone branded stores nationwide and in Puerto Rico. Typically located in high-traffic regional shopping malls and airports, the stores feature unique and innovative consumer products. The Company also operates an e-Commerce channel that includes the Brookstone catalog and the Brookstone website at http://www.brookstone.com as well as an alternative distribution channel that includes sales to select resellers and corporate partners.

Brookstone is principally owned by three sponsors, Osim International, J.W. Childs, and Temasek Holdings. In accordance with the terms governing its publicly-held debt, the Company issues quarterly and annual reports under SEC guidelines.

Statements in this release 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 posted to the Company's website. Words such as "estimate", "project", "plan", "believe", "feel", "anticipate", "assume", "may", "will", "should" and similar words and phrases may identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak 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.*

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

	June 29, 2013	December 29, 2012	June 30, 2012
Assets			
Current assets:			
Cash and cash equivalents	$ 1,229	$ 31,614	$ 1,193
Receivables, less allowances for doubtful accounts of $299 at June 29, 2013, $314 at December 29, 2012 and $245 at June 30, 2012.	12,156	14,895	12,947
Merchandise inventories	93,097	107,215	76,767
Prepaid expenses	7,282	2,881	7,691
Total current assets	113,764	156,605	98,598
Property, plant and equipment, net	40,759	42,735	43,081
Intangible assets, net	105,000	105,000	105,000
Goodwill	99,734	99,734	99,734
Other assets	1,632	2,037	2,442
Total assets	$ 360,889	$ 406,111	$ 348,855
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable	$ 28,427	$ 55,103	$ 17,721
Other current liabilities	31,839	49,187	30,538
Short-term borrowings	30,882	---	11,550
Current portion of long term debt	2,104	2,104	2,104
Deferred income taxes	47	47	469
Total current liabilities	93,299	106,441	62,382
Long-term debt:			
Senior Notes, at face value net of discount	125,466	125,410	125,356
Concession on 2010 Note Exchange, net	5,135	6,973	8,727
Other long-term debt	13,446	14,499	15,551
Total long-term debt	144,047	146,882	149,634
Other long-term liabilities	16,776	17,858	17,620
Deferred income taxes	38,488	38,488	38,066
Total liabilities	292,610	309,669	267,702
Commitments and contingencies	---	---	---
Equity:			
Brookstone Shareholder's equity:			
Additional paid-in capital	271,004	270,966	270,966
Accumulated other comprehensive loss	(3,008)	(3,120)	(2,621)
Retained deficit	(201,056)	(172,995)	(188,616)
Total Brookstone Shareholder's equity	66,940	94,851	79,729
Noncontrolling interests	1,339	1,591	1,424
Total equity	68,279	96,442	81,153
Total liabilities and equity	$ 360,889	$ 406,111	$ 348,855

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

	Thirteen weeks ended		Twenty-six weeks ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales	$ 90,343	$ 102,484	$ 179,957	$ 191,536
Cost of sales	69,823	75,416	141,070	144,270
Gross profit	20,520	27,068	38,887	47,266
Selling, general and administrative expenses	29,299	35,065	57,835	67,078
Loss from operations	(8,779)	(7,997)	(18,948)	(19,812)
Interest expense, net	4,204	4,267	8,451	8,675
Loss before income taxes	(12,983)	(12,264)	(27,399)	(28,487)
Income tax provision (benefit)	116	(97)	303	92
Consolidated net loss	(13,099)	(12,167)	(27,702)	(28,579)
Less: Net income attributable to non-controlling interests	251	465	360	757
Net loss attributable to Brookstone	$ (13,350)	$ (12,632)	$ (28,062)	$ (29,336)

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