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

# FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended June 30, 2001

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file Number 1-11692

Ethan Allen Interiors Inc.; Ethan Allen Inc.; Ethan Allen Marketing Corporation;
Ethan Allen Manufacturing Corporation
(Exact name of registrant as specified in its charter)

| Delaware | 06-1275288 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| Ethan Allen Drive, Danbury, CT | 06811 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code (203) 743-8000

Securities registered pursuant to Section 12(b) of the Act: None

| Title of Each Class | Name of Each Exchange On Which Registered |
|---|---|
| Common Stock, $.01 par value | New York Stock Exchange, Inc. |

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [x]Yes [ ]No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

The aggregate market value of Common Stock, par value $.01 per share held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on August 20, 2001 was approximately $1,415,478,498. As of August 20, 2001, there were 39,406,417 shares of Common Stock, par value $.01 outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: The definitive Proxy Statement for the 2001 Annual Shareholders Meeting is incorporated by reference into Part III hereof.

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# PART I

## Item 1. Business

### Background

Ethan Allen Interiors Inc. ("Ethan Allen"; together with its direct and indirect owned subsidiaries, the "Company") is a leading manufacturer and retailer of quality home furnishings, offering a full range of furniture products and home accessories. Ethan Allen was incorporated in Delaware in 1989. Ethan Allen designs, manufacturers and markets its own brand of furniture and home accent items through the country's largest network of home furnishing retail stores. The Company was founded in 1932 and has sold products since 1937 under the Ethan Allen brand name.

### Products

Ethan Allen markets three main product lines: (1) case goods (wood furnishings), consisting primarily of bedroom and dining room furniture, wall units and tables; (2) upholstered products, consisting primarily of sofas, loveseats, chairs, and recliners; and (3) home accessories and other, including carpeting and area rugs, lighting, clocks, wall decor, bedding ensembles, draperies, decorative accessories and indoor\outdoor furnishings. The following table shows the approximate percentage of wholesale sales of home furnishing products for each of these product lines during the three most recent fiscal years:

| | Fiscal Year Ended June 30: | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Case Goods | 56% | 56% | 57% |
| Upholstered Products | 30 | 29 | 28 |

| | | | |
|---|---|---|---|
| Home Accessories and Other | 14 | 15 | 15 |
| | --- | --- | --- |
| | 100% | 100% | 100% |
| | === | === | === |

Ethan Allen's product strategy has been to position its brand as a `preferred' brand with good quality and value. The Company's focus has been on expanding its reach to a broader consumer base through a larger selection of product lines at more attractive price points. The introduction of Horizons by Ethan Allen and EA Elements during fiscal year 2000 were designed to broaden the Company's consumer base by offering new collections at lower price points. The introduction of Swedish Home and the Modular Home Office collections during fiscal year 2001 broadened the Company's consumer base by offering these new and distinctive products.

Management believes that the two most important style categories in home furnishings are the `Classic' and the `Casual' product lifestyles. Each home furnishing collection includes case goods, upholstered products and home accessories and each is styled with its own distinct design characteristics. Home accessories play an important role in Ethan Allen's marketing program as this enables the Company to provide one-stop shopping to the consumer by offering a complete home furnishing collection. Ethan Allen's store interiors are designed for the display of these categories in complete room settings, which utilize the related collections to project the category lifestyle.

Ethan Allen continuously monitors consumer demands through marketing research and through consultation with its dealers and store design consultants who provide valuable input on consumer tastes and needs. As a result, the Company is able to react quickly to changing consumer tastes and has added or revised nine major home furnishing collections and has discontinued four home furnishing collections in the past five years. The Company also refines and enhances its product lines by adding and redesigning pieces within each collection.

The following is a summary of Ethan Allen's major home furnishing collections that have been introduced at the wholesale level and are currently available:



<TABLE>
<CAPTION>

| CATEGORY | PRINCIPAL STYLE CHARACTERISTICS | HOME FURNISHING COLLECTIONS | PRINCIPAL WOOD TYPE | CALENDAR YEAR OF INTRODUCTION |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Classic | An opulent style, which | Georgian Court | Cherry | 1965 |
| | includes English 18th | 18th Century Mahogany | Mahogany | Various |
| | Century and 19th Century | Medallion | Cherry | 1990 |
| | Neo-Classic styling. | Collectors Classics | Various | Various |
| | | Legacy | Maple | 1992 |
| | | British Classics | Maple | 1995 |
| | | Country French | Birch | 1998 |
| | | Avenue | Cherry | 1998 |
| | | Modular Home Office | Cherry | 2000 |
| Casual | This style is based | American Impressions | Cherry | 1991 |
| | on classic contemporary | Country Crossings | Maple | 1993 |
| | design elements. | Country Colors | Maple | 1995 |
| | | EA Elements | Maple | 1999 |
| | | Horizons | Ash | 1999 |
| | | Swedish Home | Maple | 2000 |

</TABLE>

## Business Segments

The Company's operations are classified into two main business segments: wholesale and retail home furnishings. The wholesale home furnishings segment is principally involved in the manufacture, sale and distribution of home furnishing products to a network of independently-owned and Ethan Allen-owned ("Company-owned") stores. The retail home furnishings segment sells home furnishing products through a network of Ethan Allen-owned stores to consumers.

Wholesale Home Furnishings:

The wholesale segment is engaged in the design, manufacture, selected procurement from outsourcing, and sale of case goods (wood furniture), upholstery, and home accent items. These products are sold from the wholesale segment to the Company's retail network, made-up of independent and company-owned retail stores. Sales of case good items include beds, dressers, armoires, night tables, dining room chairs and tables, buffets, sideboards, coffee tables, entertainment units, and home offices. Sales of upholstery home furnishing items include sleepers, recliners, chairs, sofas, cut fabrics and leather. Skilled craftsmen cut and sew custom-designed upholstery items having a variety of frame and fabric options. Home accent items include wall decor, lighting, clocks, wood accents, bedspreads, decorative accessories, area rugs, and bedding.

The Wholesale Segment. For fiscal years 2001, 2000 and 1999, the wholesale segment had net sales of $705.6 million, $691.1 million, and $637.0 million, respectively. The Company has 11 case good manufacturing facilities, which includes 3 sawmill operations, 6 upholstery facilities and 1 home accent facility in the United States. The Company also outsources select case goods, upholstery, and home accessory items.

During the fourth quarter of fiscal year 2001, the Company announced its consolidation plan to close three of its manufacturing facilities employing approximately 350 people. This consolidation plan was necessary in order to manufacture case good products more competitively and in the most suitable plants in the United States. The three facilities are located in Island Pond, Vermont; Frewsburg, New York, and Asheville, North Carolina and it is expected that each will be closed by the end of the first quarter of fiscal year 2002. Other existing Ethan Allen manufacturing plants will absorb most of the production from these facilities. Estimated closing costs of $6.9 million have been recorded as restructuring and impairment charges for the year ended June 30, 2001. The closing costs primarily include severance and related payroll and benefit costs and the write-down of long-lived assets. Actual cash expenditures are estimated to be $3.3 million. The Company anticipates that the consolidation plan, once fully implemented, will result in annual savings of approximately $4.6 million.



Retail Home Furnishings:

Ethan Allen exclusively sells its products through a network of 312 retail stores. As of June 30, 2001, Ethan Allen owned and operated 84 stores and independent dealers owned and operated 210 North American stores and 18 stores abroad. In the past five years, Ethan Allen and its independent dealers have opened 95 new stores, many of them relocations. Sales to independent dealers accounted for approximately 53% of total net sales of the Company in fiscal year 2001. The ten largest independent dealers own a total of 48 stores, which accounted for approximately 22% of net orders booked in fiscal year 2001.

It is the Company's intention to grow independent licensees as well as expand the company owned retail business by opening new stores and by acquiring stores from our existing independent dealers. Independent dealers are required to enter into license agreements with Ethan Allen authorizing the use of certain Ethan Allen service marks and requiring adherence to certain standards of operation. These standards include the exclusive sale of Ethan Allen products. Additionally, dealers are required to enter into warranty service agreements. Ethan Allen is not subject to any territorial or exclusive dealer agreements in the United States.

Company Retail Segment. For fiscal years 2001, 2000 and 1999, the retail segment had net sales of $419.3 million, $372.1 million, and $294.7 million, respectively. For fiscal year 2001, net sales for the Company's retail segment were 46% of the Company's total net sales. As of June 30, 2001, there were 84 company-owned stores as compared to 82 at the end of the prior fiscal year. During 2001, the Company acquired 1 store from an independent retailer, sold 4 stores to independent dealers, opened 6 new stores, and closed 1 store.

Retail Store Concept and Marketing

Ethan Allen's interior and exterior design is dependent on the store's location and size. Ethan Allen stores are located in busy urban settings, suburban strip malls and freestanding destination stores, depending upon the real estate opportunities in a particular market. Although stores range in size from approximately 6,000 square feet to 30,000 square feet, the average size of a store is about 15,000 square feet.

Ethan Allen maximizes uniformity of store presentation throughout the retail network through a comprehensive set of operating standards. These operating standards help each store present the same high quality image and offer retail customers consistent levels of product selection and service. A uniform store image was conveyed through Ethan Allen's program to renovate the exterior of its retail stores with similar and consistent exterior facades. As of June 30, 2001, this program was essentially completed for all stores, including Company-owned stores and independent dealers.

Ethan Allen provides display-planning assistance to all company-owned stores and independent dealers to support them in updating the interior projection of their stores and to maintain a consistent image across the country. In 1997, the Company developed a new interior design format for its retail stores. This new design format positions Ethan Allen as a specialist in `Casual' and `Classic' lifestyles and decorative accessory retailing. The stores' interiors present products in focused vignettes that are easy and relatively inexpensive to update each season. Information displays also educate consumers as they travel throughout the store. To date, 101 or 32% of all stores have implemented or are currently in the process of implementing this new interior design. Ethan Allen expects to have essentially all of its Company-owned retail stores incorporate the new interior look over the next few years and believes that many of its independent retail stores will also incorporate the new interior design. Additionally, during this fiscal year, the Company implemented a major re-merchandising effort called "Branding the



Interior" of the stores. This program refers to the Company's plan to feature the best selling home accessory items in the most effective display setting within the store.

The retail network is staffed with a sales force of approximately 3,000 trained design consultants and professionals, who assist customers at no additional charge in decorating their homes. Ethan Allen believes this design service provides a competitive advantage over other furniture retailers.

Ethan Allen recognizes the importance of its store network to its long-term success and has developed and maintains a close ongoing relationship with its dealers. The Company also offers substantial services to the Ethan Allen stores in support of their marketing efforts, including coordinated national advertising, merchandising and display programs, and extensive dealer training seminars and educational materials. Ethan Allen believes that the development of design consultants, sales managers, service and delivery personnel and dealers is important for the growth of its business. Ethan Allen has, therefore, committed to offer to all dealers a comprehensive training program that will help to develop retail managers/owners, design consultants and service and delivery personnel to their fullest potential. Ethan Allen has offered dealers various assistance programs as well, including long-term financial assistance in connection with the financing of their inventory, the opening of new stores and the renovation of stores in accordance with Ethan Allen's image and logo program.

Advertising

Ethan Allen has developed a highly coordinated, nationwide advertising and promotional campaign designed to increase consumer awareness of the breadth of Ethan Allen's product offerings. Ethan Allen's in-house staff, working with a leading advertising firm, has developed and implemented what the Company believes is the most extensive national television campaign in the home furnishings industry. This campaign is designed to support eight annual retail sale periods and to increase the flow of traffic into stores during these sale periods. The sale periods run between six and seven weeks at a time during the fiscal year.

Ethan Allen's television advertising is aired approximately 25 weeks per year. In addition to its national television campaign, Ethan Allen utilizes direct mail, newspaper, and radio advertising. Ethan Allen believes that its ability to coordinate its advertising efforts with those of its independent dealers provides a competitive advantage over other home furnishing manufacturers and retailers.

The Ethan Allen Interiors direct mail magazine, which features Ethan Allen's home furnishing collections, is one of Ethan Allen's most important marketing tools. Over 75 million copies of the magazine, which features sale products, are distributed to consumers during the eight sale periods. The Company publishes and sells the magazines to its company-owned and independent dealers who, with demographic information collected through independent market research, are able to target potential consumers.

Ethan Allen's television advertising and direct mail efforts are supported by strong print campaigns in various markets, and in leading home fashion magazines using advertisements and public relations efforts. The Company coordinates significant advertisements in major newspapers in its major markets. The Ethan Allen Treasury, a complete catalogue of the Ethan Allen home furnishing collections, which is distributed in the stores, is one of the most comprehensive home furnishing catalogues in the industry.

Internet

Ethan Allen is located on the worldwide web at www.ethanallen.com. The Company's primary goal for the web site is to drive additional business into the retail network through lead generation and information sourcing. Customers may access the Company's web site to review home furnishing collections or to purchase home accessories or selected upholstery items. Customers may also apply for the simple finance plan on-line in order have an approved credit line before making a large purchase. The Company developed an extranet web site which links the retail stores with consumer information captured on-line. This information includes requests for design assistance and for copies of the Company's catalogue. Approximately 10,000 average daily users logged onto the Ethan Allen web site during fiscal year 2001.

Ethan Allen Consumer Credit Programs

Ethan Allen offers its consumers two financing options; an installment finance plan and a revolving credit plan.

The Installment Finance Plan. The Company introduced an installment financing plan for consumers during fiscal year 2000 called the Simple Finance Plan. Financing offered through this option is granted on a non-recourse basis to the Company. The plan provides credit lines from $2,000 to $50,000 with repayment terms of up to seven years and has an annual interest rate of 9.99%. Consumers may apply for this financing plan either at the retail stores or through the Company's web site. Approximately 78% of applications submitted since inception of the plan were approved, and there are over 28,000 accounts currently outstanding. Total open credit lines approved exceed $445.0 million. Information on the financing plan and instructions on how to apply for it have been incorporated into the Company's national marketing campaign during this fiscal year.

The Revolving Credit Card Plan. The Company offers financing to consumers under a revolving credit card program. The program is also granted on a non-recourse basis to the Company. This program provides revolving credit lines from $1,500 to $25,000 and has an annual interest rate of 18.60%. Consumers may apply for revolving credit either at the retail stores or through the Company's web site. Approximately 90% of applications submitted this year were approved, and there are over 40,000 accounts currently outstanding.

Manufacturing

Ethan Allen is one of the largest manufacturers of household furniture in the United States. Ethan Allen manufactures and/or assembles approximately 81% of its products at 18 manufacturing facilities which includes 3 saw mills, thereby maintaining control over cost, quality and service to its consumers. The case goods facilities are located close to sources of raw materials and skilled craftsmen, predominantly in the Northeast and Southeast regions of the country. Upholstery facilities are located across the country in order to reduce shipping costs to stores and are located at sites where skilled craftsmanship is available. Management believes that continued investment at its manufacturing facilities, combined with outsourcing will accommodate future sales growth.

In October of 2000, the Company purchased a case goods manufacturing plant in Dublin, Virginia. This plant which originally opened in 1973, consists of 450,000 square feet of case good manufacturing space and 120,000 square feet of distribution space. The Company retained most of the employees and converted the operations to manufacture Ethan Allen product lines.

Distribution

Ethan Allen distributes its products primarily through 6 regional distribution centers strategically located throughout the United States. These distribution centers hold finished products received from Ethan Allen's manufacturing facilities for shipment to Ethan Allen's dealers or home delivery service centers. Ethan Allen stocks case goods and accessories to provide for quick delivery of in-stock items and to allow for more efficient production runs.



Approximately 37% of shipments are made to and from the distribution and home delivery service centers by the Company's fleet of trucks and trailers. The balance of Ethan Allen's shipments are subcontracted to independent carriers. Approximately 82% of Ethan Allen-owned delivery vehicles are leased under two to eight-year leases.

Ethan Allen's policy is to sell its products at the same delivered cost to all dealers nationwide, regardless of their shipping point. The adoption of this policy has created credibility by offering product to the consumer at one suggested national retail price. This policy has also discouraged dealers from carrying significant inventory in their own warehouses. As a result, Ethan Allen obtains accurate information regarding sales to dealers to better plan production runs and manage inventory.

Raw Materials and Suppliers

The most important raw materials used by Ethan Allen in furniture manufacturing are lumber, veneers, plywood, particle board, hardware, glue, finishing materials, glass, mirrored glass, laminates and fabrics. The various types of wood used in Ethan Allen's products include cherry, oak, maple, prima vera, mahogany, birch and pine, substantially all of which are purchased domestically.

Fabrics and other raw materials are purchased both domestically and abroad. Ethan Allen has no significant long-term supply contracts, and has experienced no significant problems in supplying its operations. Ethan Allen maintains a number of sources for its raw materials which management believes contribute to its ability to obtain competitive pricing for raw materials. Lumber prices fluctuate over time depending on factors such as weather and demand, which impact availability. Upward trends in prices could have a short-term impact on margins.

A sufficient inventory of lumber and fabric is usually stocked to maintain approximately 6 to 22 weeks of production. Management believes that its sources of supply for these materials are adequate and that it is not dependent on any one supplier.

Competition

The home furnishings industry at the retail level is highly competitive and fragmented. Although Ethan Allen is among the ten largest furniture manufacturers, industry estimates indicate that there are over 1,000 manufacturers of all types of furniture in the United States. Some of these manufacturers produce furniture types not manufactured by Ethan Allen. Certain of the companies, which compete directly with Ethan Allen, may have greater financial and other resources than the Company.

Ethan Allen's products are sold primarily through retail stores, which exclusively sell Ethan Allen products. Ethan Allen's effort is focused primarily upon obtaining and retaining independent dealers, increasing the volume of such dealer's sales, and expanding the company-owned retail business by opening new stores and when appropriate acquiring stores from our existing independent dealers. The home furnishings industry competes primarily on the basis of product styling and quality, personal service, prompt delivery, product availability and price. Ethan Allen believes that it effectively competes on the basis of each of these factors and believes that its store format provides it with a competitive advantage because of the complete home furnishing product selection and service available to the consumer.

Furniture Today (a leading industry publication) published a survey of America's Top 100 Furniture Stores on May 21, 2001. Ethan Allen moved from the No.2 ranking last year to No. 1 this year as the nations' leader in sales of furniture, bedding and home accessories. Additionally, for the second year in a row, Ethan Allen was the No. 1 single-source store network. During the last fiscal year, the furniture industry and several retailers have been challenged



by changes in economic conditions. Several competitors of the Company have filed for bankruptcy protection and have announced plans to close their retail stores. Ethan Allen has been able to maintain stability and credibility by managing its growth and balancing this growth with the ability to service its customers.

Trademarks

Ethan Allen currently holds numerous trademarks, service marks and design patents for the Ethan Allen name, logos and designs in a broad range of classes for both products and services. Ethan Allen also holds international registrations for Ethan Allen trademarks in forty-seven foreign countries and has applications for registration pending in fourteen other foreign countries. Ethan Allen has registered or has applications pending for many of its major collection names as well as certain of its slogans coined for use in connection with retail sales and other services. Ethan Allen views its trade and service marks as valuable assets and has an ongoing program to diligently monitor their unauthorized use through appropriate action.

Backlog and Net Orders Booked

As of June 30, 2001, Ethan Allen had a wholesale backlog of approximately \$51.9 million, compared to a backlog of \$75.4 million as of June 30, 2000. The backlog is anticipated to be serviced in the first quarter of fiscal year 2002. Backlog at any point in time is primarily a result of net orders booked in prior periods, manufacturing schedules and the timing of product shipments. Net orders booked at the wholesale level from all Ethan Allen stores (including all independently-owned and Ethan Allen-owned stores) for the twelve months ended June 30, 2001 were \$689.0 million as compared to \$706.9 million for the twelve months ended June 30, 2000. Net orders booked in any period are recorded based on wholesale prices and do not reflect the additional retail margins produced by the Ethan Allen-owned stores.

Employees

Ethan Allen has 7,797 employees as of June 30, 2001. Approximately 6% of the Company's employees are represented by unions under collective bargaining agreements. The Company's labor contracts expire at various times in 2002. The Company expects no significant changes in its relations with these unions and Ethan Allen believes it has good relations with its employees.

Recent Developments

The Company signed an agreement with Markor Furniture International Ltd. of Urumqi, China to develop a chain of retail stores in the People's Republic of China. The agreement calls for the two companies to collaborate on the development of a retail store format that will market two retail concepts; the Ethan Allen retail program along with the Markor retail program. The Company's objective is to open the first store in the summer of 2002 and to open additional stores thereafter.

The Company has also made arrangements with several leading manufacturers in South East Asia, including Markor Furniture International Ltd., to produce products for Ethan Allen to be marketed in Ethan Allen Home Interior stores.



## Item 2. Properties

The corporate headquarters of Ethan Allen, located in Danbury, Connecticut, consists of one building containing 144,000 square feet, situated on approximately 17.5 acres of land, all of which is owned by Ethan Allen. Located adjacent to the corporate headquarters is the Inn at Ethan Allen, a hotel containing 195 guestrooms. This hotel, owned by a wholly-owned subsidiary of Ethan Allen, is used for Ethan Allen functions and in connection with training programs as well as for accommodations for the general public.

Ethan Allen has 18 manufacturing facilities, which includes 3 saw mills located in 10 states, all of which are owned, with the exception of a leased upholstery plant in California, totaling 122,300 square feet. These facilities consist of 11 case goods manufacturing plants, totaling 3,416,400 square feet (including three sawmills), 6 upholstery furniture plants, totaling 1,384,000 square feet and 1 plant involved in the manufacture and assembly of Ethan Allen's home accessory products with 295,000 square feet. In addition, Ethan Allen owns six and leases three ancillary distribution warehouses, totaling 1,099,500 square feet, and leases one home delivery service center with 52,000 square feet. The Company's manufacturing and distribution facilities are located in North Carolina, Vermont, Pennsylvania, Virginia, New York, Oklahoma, California, New Jersey, Indiana, Maine and Massachusetts.

There are 84 Ethan Allen-owned retail stores in the United States, of which 30 stores are owned and 54 stores are leased.

Ethan Allen's manufacturing facility in Maiden, North Carolina and the Inn at Ethan Allen in Danbury, Connecticut were financed with industrial revenue bonds and the Beecher Falls, Vermont facility was financed in part by the State of Vermont Economic Development Authority. In addition, one retail store is subject to a mortgage loan agreement. Ethan Allen believes that all of its properties are well maintained and in good condition.

Ethan Allen estimates that its manufacturing division is currently operating at approximately 90% of capacity. Management believes it has additional capacity at many facilities, which it could utilize with minimal additional capital expenditures.



## Item 3. Legal Proceedings

Ethan Allen is a party to various legal actions with customers, employees and others arising in the normal course of its business. Ethan Allen maintains liability insurance, which Ethan Allen believes, is adequate for its needs and commensurate with other companies in the home furnishings industry. Ethan Allen believes that the final resolution of pending actions (including any potential liability not fully covered by insurance) will not have a substantial adverse effect on the Company's results of operations and financial position.

Environmental Matters

The Company has been named as a potentially responsible party ("PRP") for the cleanup of three sites currently listed or proposed for inclusion on the National Priorities List ("NPL") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"). The Company has resolved its liability at one of the sites by completing remedial action activities. The Company has resolved its liability at another site through legal settlement and in regards to the third site the Company does not anticipate incurring significant cost. The Company believes that it is not a major contributor based on the very small volume of waste generated by the Company in relation to total volume at the site.

Ethan Allen is subject to other federal, state and local environmental protection laws and regulations and is involved from time to time in investigations and proceedings regarding environmental matters. The Company is regulated under several federal, state and local laws and regulations concerning air emissions, water discharges, and management of solid and hazardous wastes. The Company believes that its facilities are in material compliance with all applicable laws and regulations. Regulations issued under the Clean Air Act Amendments of 1990 required the Company to reformulate certain furniture finishes or institute process changes to reduce emissions of volatile organic compounds. These requirements have been implemented via high solids coating technology and alternative formulations. Ethan Allen has implemented a variety of technical and procedural controls, such as reformulating of finishing materials to reduce toxicity, implementation of high velocity low pressure spray systems, development of inspections/audit teams including coating emissions reductions teams at all finishing factories and storm water protection plans and controls, that have reduced emissions per unit of production. In addition, Ethan Allen is currently reclassifying its waste as part of the factory waste minimization programs, developing environment and safety job hazard analysis programs on the shop floor to reduce emissions and safety risks, and developing an auditing system to control and ensure consistent protocols and procedures are applied. The Company will continue to evaluate the best applicable, cost effective, control technologies for finishing operations and design production methods which will reduce the use of hazardous materials in manufacturing processes.



## Item 4. Submission of Matters to a Vote of Security Holders

The following matters were submitted to security holders of the Company during the fourth quarter of fiscal year 2001:

None.



# PART II

## Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock is traded on the New York Stock Exchange under ticker symbol `ETH'. The following table indicates the high and low stock prices as reported on the New York Stock Exchange and dividends paid by the Company:

| | Closing Market Price | | |
|---|---|---|---|
| | High | Low | Dividends Paid |
| **Fiscal 2001** | | | |
| Fourth Quarter | $ 38.01 | $ 32.50 | $ 0.04 |
| Third Quarter | 38.80 | 30.88 | 0.04 |
| Second Quarter | 33.50 | 24.69 | 0.04 |
| First Quarter | 30.75 | 24.81 | 0.04 |
| **Fiscal 2000** | | | |
| Fourth Quarter | $ 28.75 | $ 23.06 | $ 0.04 |
| Third Quarter | 30.19 | 21.63 | 0.04 |
| Second Quarter | 36.81 | 29.38 | 0.04 |
| First Quarter | 33.06 | 26.44 | 0.04 |

As of August 20, 2001, there were approximately 443 shareholders of record of the Company's Common Stock.

On August 3, 2001, the Company declared a $0.04 per common share dividend for all holders of record on October 10, 2001 and payment date of October 25, 2001. The Company expects to continue to declare quarterly dividends for the foreseeable future.

Item 6. Selected Financial Data

The following table sets forth summary consolidated financial information of the Company for the years and dates indicated (dollars in thousands, except per share data):

<TABLE>
<CAPTION>

| | Fiscal Years Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Statement of Operations Data: | | | | | |
| Net sales | $ 904,133 | $ 856,171 | $ 762,233 | $ 679,321 | $ 571,838 |
| Cost of sales | 490,477 | 455,561 | 407,234 | 363,746 | 323,600 |
| Selling, general and administrative expenses | 280,703 | 253,029 | 221,237 | 195,216 | 162,227 |
| Restructuring and impairment charge(1) | 6,906 | -- | -- | -- | -- |
| Operating income | 126,047 | 147,581 | 133,762 | 120,359 | 86,011 |
| Interest and other (income) expense, net | (2,056) | 811 | 1,045 | 1,829 | 5,317 |
| Income before income tax expense and extraordinary charge | 128,103 | 146,770 | 132,717 | 118,530 | 80,694 |
| Income tax expense | 48,423 | 56,200 | 51,429 | 46,582 | 31,954 |
| Income before extraordinary charge | 79,680 | 90,570 | 81,288 | 71,948 | 48,740 |
| Extraordinary charge (net of tax) | -- | -- | -- | (802)(2) | -- |
| Net income | $ 79,680 | $ 90,570 | $ 81,288 | $ 71,146 | $ 48,740 |
| Per Share Data: (3) | | | | | |
| Net income per basic share | $ 2.02 | $ 2.25 | $ 1.97 | $ 1.65 | $ 1.13 |
| Basic weighted average shares outstanding | 39,390 | 40,301 | 41,278 | 43,050 | 43,190 |
| Net income per diluted share | $ 1.98 | $ 2.20 | $ 1.92 | $ 1.61 | $ 1.11 |
| Diluted weighted average shares outstanding | 40,321 | 41,198 | 42,287 | 44,136 | 43,815 |
| Cash dividends declared | $ 0.16 | $ 0.16 | $ 0.12 | $ 0.09 | $ 0.07 |
| Other information: | | | | | |
| Depreciation and amortization | $ 20,220 | $ 16,975 | $ 16,344 | $ 15,868 | $ 16,411 |
| Capital expenditures, including acquisitions | 48,238 | 54,696 | 47,792 | 29,665 | 23,383 |
| Working capital | $ 182,223 | $ 127,519 | $ 123,580 | $ 114,287 | $ 131,421 |
| Current ratio | 2.69 | 2.18 | 2.43 | 2.55 | 3.08 |
| Balance Sheet Data (at end of period): | | | | | |
| Total assets | $ 619,118 | $ 543,571 | $ 480,622 | $ 433,123 | $ 427,784 |
| Total debt including capital lease obligations | 9,487 | 17,907 | 10,676 | 13,375 | 67,885 |
| Shareholders' equity | $ 464,783 | $ 390,509 | $ 350,535 | $ 314,320 | $ 265,434 |
| Ratio of debt to equity | 2.0% | 4.4% | 3.0% | 4.1% | 20.4% |

</TABLE>

Footnotes on following page.



Notes to Selected Financial Data
(Dollars in thousands)

(1) During the fourth quarter of fiscal year 2001, the Company announced its consolidation plans to close three of its manufacturing facilities employing approximately 350 people. This consolidation plan was necessary in order to manufacture case good products competitively and at the most suitable plants in the United States. It is expected that these facilities will be closed by the end of the first quarter of fiscal year 2002. Estimated closing costs of $6.9 million have been recorded as restructuring and impairment charges for the year ended June 30, 2001. The closing costs primarily include severance and related payroll and benefit costs and the write-down of long-lived assets.

(2) During fiscal 1998, the Company completed its optional early redemption of all of its $52.4 million then-outstanding 8-3/4% Senior Notes, due on March 15, 2001, at 101.458% of par value. As a result of the early redemption, an extraordinary charge of $0.8 million, net of tax benefit, was recorded. The extraordinary charge included the write-off of unamortized deferred financing costs associated with the Senior Notes and the premium related to the early redemption.

(3) Amounts have been retroactively adjusted to reflect the two-for-one stock split on September 2, 1997 and the three-for-two stock split on May 21, 1999.



## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of results of operations and financial condition is based upon and should be read in conjunction with the Consolidated Financial Statements of the Company and notes thereto included under Item 8 of this Report.

### Forward-Looking Statements

Management's discussion and analysis of financial condition and results of operations and other sections of this annual report contain forward-looking statements relating to future results of the Company. Such forward-looking statements are identified by use of forward-looking words such as "anticipates", "believes", "plans", "estimates", "expects", and "intends" or words or phrases of similar expression. These forward-looking statements are subject to various assumptions, risks and uncertainties, including but not limited to, changes in political and economic conditions, demand for the Company's products, acceptance of new products, technology developments affecting the Company's products and to those discussed in the Company's filings with the Securities and Exchange Commission. Accordingly, actual results could differ materially from those contemplated by the forward-looking statements.

### Basis of Presentation

The Company has no material assets other than its ownership of Ethan Allen's capital stock and conducts all significant transactions through Ethan Allen; therefore, substantially all of the financial information presented herein is that of Ethan Allen.

### Results of Operations:

Ethan Allen's revenues are comprised of wholesale sales to dealer-owned and company-owned retail stores and retail sales of company-owned stores. See Note 15 to the Company's Consolidated Financial Statements for the year ended June 30, 2001. The components of consolidated revenues and operating income are as follows (dollars in millions):

| | Fiscal Years Ended June 30, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| **Revenue:** | | | |
| Wholesale segment | $ 705.6 | $ 691.1 | $ 637.0 |
| Retail segment | 419.3 | 372.1 | 294.7 |
| Elimination of inter-segment sales | (220.8) | (207.0) | (169.5) |
| Consolidated Revenue | $ 904.1 | $ 856.2 | $ 762.2 |
| **Operating Income:** | | | |
| Wholesale segment* | $ 99.1 | $ 131.7 | $ 123.0 |

| | | | |
|---|---|---|---|
| Retail segment | 24.5 | 21.3 | 15.1 |
| Eliminations | 2.4 | (5.4) | (4.3) |
| Consolidated Operating Income | $ 126.0 | $ 147.6 | $ 133.8 |

* The Wholesale segment includes a pre-tax restructuring and impairment charge of $6.9 million recorded in fiscal year 2001.

Fiscal 2001 Compared to Fiscal 2000

Consolidated revenue for fiscal year 2001 of $904.1 million increased by $47.9 million or 5.6% from fiscal year 2000 consolidated revenue of $856.2 million. Overall sales growth resulted from new product offerings, a selective price increase effective February 2000, and from the growth in the retail segment.

Total wholesale revenue for fiscal year 2001 was $705.6 million as compared to $691.1 million in fiscal year 2000. This represents a $14.5 million or 2.1% increase over fiscal year 2000. The increase in wholesale revenue was due to a selective price increase effective February 2000 and from sales volume generated from new product introductions at more affordable price points. These increases



were partially offset by three fewer production days in the current fiscal year as compared to the prior year.

Total retail revenue from Ethan Allen-owned stores for fiscal year 2001 increased by $47.2 million or 12.7% to $419.3 million from $372.1 million in the prior year. The increase in retail sales by Ethan Allen-owned stores was attributable to a 10.0% or $34.7 million increase in comparable store sales, an increase in sales generated by newly opened or acquired stores of $25.1 million, partially offset by sold and closed stores, which generated $12.6 million less sales in fiscal year 2001 as compared to fiscal year 2000. The number of Ethan Allen-owned stores increased to 84 as of June 30, 2001 as compared to 82 as of June 30, 2000. The Company acquired 1 store from an independent dealer, sold 4 to an independent dealer, relocated 1 store, and opened 5 new stores.

Comparable stores are those which have been operating for at least 15 months. Minimal net sales, derived from the delivery of customer ordered product, are generated during the first three months of operations of newly opened stores. Stores acquired from dealers by Ethan Allen are included in comparable store sales in their 13th full month of Ethan Allen-owned operations.

Booked orders for the year ended June 30, 2001 were slightly lower than the same period in the prior year by 1.4%, reflecting slower economic growth. The prior year's increase in booked orders was 16.0%. Total orders include wholesale orders and written business of company-owned retail stores. Wholesale orders were down 2.5% for fiscal year 2001 and written orders for company-owned stores were higher by 3.4%.

Gross profit for fiscal year 2001 increased $13.1 million or 3.3% to $413.7 million from $400.6 million in fiscal year 2000. The $13.1 million increase in gross profit was mainly due to higher sales volume, a selective price increase effective February 2000 and a higher percentage of retail sales to total sales. These increases were offset by a decline in the gross margin to 45.8% for the year ended June 30, 2001 from 46.8% in the prior year. The gross margin was negatively impacted by changes in production scheduling mainly due to new product introductions and from the sale of more affordably priced products manufactured at lower margins. Gross margins were also negatively impacted by higher costs incurred due to plant expansions, including the start-up of the new case goods manufacturing facility in Dublin, Virginia and from other plant expansions initiated to increase production capacity and improve efficiencies.

The Company recorded a pre-tax restructuring and impairment charge of $6.9 million in the fourth quarter of fiscal year 2001 relating to the consolidation of three manufacturing facilities in the fourth quarter of fiscal year 2001.

Operating expenses, excluding the restructuring and impairment charge of $6.9 million, increased $27.7 million to $280.7 million or 31.0% of net sales in fiscal year 2001 from $253.0 million or 29.6% of net sales in fiscal year 2000. This increase is primarily attributable to the expansion of the retail segment and from increased employee benefits, energy and utility costs.

Operating income, excluding the restructuring and impairment charge of $6.9 million, for fiscal year 2001 was $133.0 million or 14.7% of net sales compared to $147.6 million or 17.2% of net sales in fiscal year 2000. This represents a decrease of $14.6 million or 9.9% primarily attributable to a lower gross margin noted above, higher operating expenses resulting from the growth of the retail segment and an increase in employee benefit, energy and utility costs, partially offset by higher sales volumes and a higher percentage of retail sales to total sales.

Total wholesale operating income for fiscal year 2001, excluding the restructuring and impairment charge of $6.9 million, was $106.0 million or 15.0% of wholesale net sales compared to $131.7 million or 19.1% of wholesale net sales in fiscal year 2000. Wholesale operating income decreased $25.7 million or 19.5% in fiscal year 2001. This decrease was attributable to three fewer



production days in the twelve month period ending June 30, 2001 and from a lower gross margin noted above.

Operating income for the retail segment increased by $3.2 million or 15.0% to $24.5 million or 5.8% of net retail sales from $21.3 million or 5.7% of net retail sales in fiscal year 2000. The increase in retail operating income by Ethan Allen-owned stores is primarily attributable to increased sales volume, a selective price increase effective February 2000, partially offset by higher operating expenses related to the addition of new stores and higher compensation costs necessary to strengthen the staffing of the retail segment.

Interest and other miscellaneous income of $2.8 million increased $2.4 million from $0.4 million in fiscal year 2000 mainly due to the gain recorded on a real property transaction and from an increase in investment income.

Interest expense, including the amortization of deferred financing costs, for fiscal year 2001 decreased by $0.5 million to $0.8 million, due to lower debt balances and lower amortization of deferred financing costs.

Income tax expense of $48.4 million was recorded for the twelve months ended June 30, 2001 as compared to $56.2 million for the twelve months ended June 30, 2000. The Company's effective tax rate was 37.8% in fiscal year 2001 and 38.3% in fiscal year 2000. The decline in the effective income tax rate for the year was the result of the implementation of various tax planning strategies.

In fiscal year 2001, the Company recorded net income of $79.7 million, a decrease of 12.0%, compared to $90.6 million in fiscal year 2000. Earnings per diluted share of $1.98 decreased 10.0% or $0.22 per diluted share from $2.20 per diluted share in the prior year.

Fiscal 2000 Compared to Fiscal 1999

Consolidated revenue for fiscal year 2000 of $856.2 million increased by $94.0 million or 12.3% from fiscal year 1999 consolidated revenue of $762.2 million. Overall sales growth resulted from new product offerings, growth in the retail segment, a selected case good price increase effective December 1, 1998 and to a lesser extent, an overall price increase effective February 25, 2000.

Total wholesale revenue for fiscal year 2000 increased $54.1 million or 8.5% to $691.1 million in fiscal year 2000 from $637.0 million in fiscal year 1999. This increase resulted from new product and fabric introductions, new merchandising strategies and a focused marketing effort, and the benefit of a selected price increase effective December 1998.

Total retail revenue from Ethan Allen-owned stores during fiscal year 2000 increased by $77.4 million or 26.3% to $372.1 million from $294.7 million in fiscal year 1999. The increase in retail sales by Ethan Allen-owned stores is attributable to a 17.2% or $48.0 million increase in comparable store sales, an increase in sales generated by newly opened or acquired stores of $37.9 million, partially offset by sold or closed stores, which generated $8.5 million less sales in fiscal year 2000 as compared to fiscal year 1999. The number of Ethan Allen-owned stores increased to 82 as of June 30, 2000 as compared to 73 as of June 30, 1999. The Company acquired 8 stores from independent dealers, sold 1 to an independent dealer, opened 3 new stores, relocated 1 store and closed 1 store.

Booked orders for the year ended June 30, 2000 were higher than the same period in the prior year by 16.0%. The prior year's increase in booked orders was 8.3%. Total orders include wholesale orders and written business of company-owned retail stores. Wholesale orders were up 14.3% and orders for company-owned stores were higher by 23.3% over the prior year.

Gross profit for fiscal year 2000 increased by $45.6 million or 12.8% to $400.6 million from $355.0 million in fiscal year 1999. This increase is attributable to higher sales volume, combined with an increase in gross margin



to 46.8% in fiscal 2000 from 46.6% in fiscal 1999. Gross margins were favorably impacted by higher sales volumes, a selected case good price increase effective December 1, 1998, a selected price increase effective February 25, 2000, and a higher percentage of retail sales to total sales, partially offset by, higher manufacturing costs, mainly raw materials and labor.

Operating expenses increased $31.8 million or 29.0% in fiscal year 2000 to $253.0 million or 29.6% of net sales from $221.2 million or 29.0% of net sales in fiscal year 1999. This increase is primarily attributable to the expansion of the retail segment resulting in the addition of 9 net new Ethan Allen-owned stores in fiscal year 2000.

Operating income for fiscal year 2000 was $147.6 million or 17.2% of net sales as compared to $133.8 million or 17.5% of net sales in fiscal year 1999. This represents an increase of $13.8 million or 10.3%, which resulted from higher sales volume, partially offset by a lower wholesale and retail gross margin and higher operating expenses caused by the growth in the retail segment.

Total wholesale operating income for fiscal year 2000 was $131.7 million or 19.1% of wholesale net sales compared to $123.0 million or 19.3% of wholesale net sales in fiscal year 1999. Wholesale operating income increased $8.7 million or 7.1% in fiscal year 2000 primarily due to higher sales volumes and the price increase effective December 1998, partially offset by higher manufacturing costs.

Operating income for the retail segment increased by $6.2 million or 41.1% to $21.3 million or 5.7% of net retail sales from $15.1 million or 5.1% of net retail sales in fiscal year 1999. The increase in retail operating income by Ethan Allen-owned stores is primarily attributable to increased sales volume, offset by a reduction in gross margin and higher operating expenses associated with the addition of the new stores.

Interest expense, including the amortization of deferred financing costs, for fiscal 2000 decreased by $0.6 million to $1.3 million, due to lower debt balances and lower amortization of deferred financing costs.

Income tax expense of $56.2 million was recorded in fiscal year 2000. The Company's effective tax rate was 38.3% in fiscal year 2000 as compared to 38.8% in fiscal year 1999. The decline in the effective income tax rate in 2000 as compared to 1999 resulted from state income tax benefits realized in fiscal year 2000.

In fiscal year 2000, the Company recorded net income of $90.6 million, an increase of 11.4%, compared to $81.3 million in fiscal year 1999. Earnings per diluted share of $2.20 increased 14.6% or $0.28 per diluted share from $1.92 per diluted share in the prior year.

Financial Condition and Liquidity

The Company's principal sources of liquidity are cash flow from operations and borrowing capacity under a revolving credit facility. Net cash provided by operating activities totaled $87.6 million for fiscal year 2001 as compared to $104.9 million in fiscal year 2000 and $86.7 million in fiscal year 1999. The decrease in net cash provided by operating activities principally resulted from a decrease of $10.9 million in net income and more of an increase in working capital including inventories, which increased by $19.0 million in fiscal year 2001 as compared to $9.2 million in fiscal year 2000. The $19.0 million increase in inventory in fiscal year 2001 resulted from higher raw materials and work in process relating to the new manufacturing facility in Dublin, higher retail inventories from the new stores, and a build in finished goods necessary to meet orders upon the closing of the three manufacturing facilities in the fourth quarter of 2001. The current ratio was 2.69 to 1 in 2001 and 2.18 to 1 in 2000.

During fiscal year 2001, capital spending, exclusive of acquisitions, totaled $38.5 million as compared to $42.1 million and $40.6 million in fiscal 2000 and 1999, respectively. The increased level of capital spending, which is



principally attributable to new store openings and relocations and expanding manufacturing capacity, is expected to continue for the foreseeable future. Capital expenditures in fiscal year 2002, exclusive of acquisitions, are anticipated to be approximately $30.0 million. In addition, the Company expects to incur expenditures for retail and other acquisitions during fiscal year 2002. The Company anticipates that cash from operations will be sufficient to fund capital expenditures and acquisitions.

Net cash used in financing activities totaled $15.0 million in fiscal year 2001 as compared to $47.0 million in fiscal year 2000 and $51.6 million in fiscal year 1999. The decrease in net cash used in financing activities related to lower debt borrowings and a decrease in payments to acquire treasury stock during fiscal year 2001. Total debt outstanding at June 30, 2001 was $9.5 million. At June 30, 2001, there were no revolving loans outstanding and $16.7 million of trade and standby letters of credit outstanding under the Credit Agreement. The Company had $108.3 million available under its revolving credit facility at June 30, 2001.

The Company has been authorized by its Board of Directors to repurchase its common stock from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to the Company. The Company also repurchases shares of common stock from terminated or retiring employee's accounts in the Ethan Allen Retirement Saving Plan. The Company's common stock repurchases are recorded as treasury stock and result in a reduction of shareholders' equity. During fiscal years 2001, 2000 and 1999, the Company repurchased the following shares of its common stock:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Common shares repurchased | 33,006 | 1,928,350 | 1,921,784 |
| Cost to repurchase common shares | $ 1,069,307 | $49,605,555 | $45,137,746 |
| Average price per share | $ 32.40 | $ 25.72 | $ 23.49 |

The Company funded its purchases through cash from operations and through revolver loan borrowings under the Credit Agreement. As of June 30, 2001, the Company had a remaining Board authorization to purchase 1.4 million shares.

As of June 30, 2001, aggregate scheduled maturities of long-term debt for each of the next five fiscal years are $0.1 million, and $0.1 million, $0.1 million, $4.7 million and $0.1 million, respectively. Management believes that its cash flow from operations, together with its other available sources of liquidity, will be adequate to make all required payments of principal and interest on its debt, to permit anticipated capital expenditures and to fund working capital and other cash requirements.

Impact of Inflation

The Company does not believe that inflation has had a material impact on its profitability during the last three fiscal years. In the past, the Company has generally been able to increase prices to offset increases in operating costs and effectively manage its working capital.

Income Taxes

At June 30, 2001, the Company has approximately $14.6 million of net operating loss carryovers ("NOL's") for federal income tax purposes. The Recapitalization in 1993 triggered an "ownership change" of the Company, as defined in Section 382 of the Internal Revenue Code of 1986, as amended, resulting in an annual limitation on the utilization of the NOL's by the Company of approximately $3.9 million.

New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 addresses the accounting and reporting for business combinations and supercedes APB Opinion No. 16, "Business Combinations" and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." The new pronouncement requires that all



business combinations be accounted for under the purchase method. The Company will adopt this standard for all business combinations initiated after June 30, 2001.

Also in June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". This pronouncement provides guidance on financial accounting and reporting for acquired goodwill and other intangible assets. This statement supercedes APB Opinion No. 17, "Intangible Assets". The provisions of this statement are required to be applied for fiscal years beginning after December 15, 2001. The Company plans to adopt this pronouncement for its first quarter ended September 30, 2001, which will positively impact annual pre-tax earnings by approximately $1.8 million.



## Item 7A. Quantitative and Qualitative Disclosure about Market Risk

The Company is exposed to interest rate risk primarily through its borrowing activities. The Company's policy has been to utilize United States dollar denominated borrowings to fund its working capital and investment needs. Short term debt, if required, is used to meet working capital requirements and long-term debt is generally used to finance long term investments. There is inherent rollover risk for borrowings as they mature and are renewed at current market rates. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and the Company's future financing requirements. At June 30, 2001, the Company had $0.1 million of short term debt outstanding and $9.4 million of total long term debt outstanding.

The Company has one debt instrument outstanding with a variable interest rate. This debt instrument has a principal balance of $4.6 million, which matures in 2004. Based on the principal outstanding in 2001, a one-percentage point increase in the variable interest rate would not have had a significant impact on the Company's 2001 interest expense.

The Company is not currently exposed to foreign currency exchange, commodity price, or other relevant market rate or price risks. Ethan Allen does not enter into financial instrument transactions for trading or other speculative purposes or to manage interest rate exposure.



## Item 8. Financial Statements and Supplementary Data

### INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Ethan Allen Interiors Inc.:

We have audited the accompanying consolidated balance sheets of Ethan Allen Interiors Inc. and Subsidiary (the "Company") as of June 30, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2001. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the index under Item No. 14. The consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ethan Allen Interiors Inc. and Subsidiary as of June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Stamford, Connecticut
August 2, 2001



ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Consolidated Balance Sheets
June 30, 2001 and 2000
(Dollars in thousands)

| | 2001 | 2000 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 48,112 | $ 14,024 |
| Accounts receivable, less allowance of $2,679 and $2,751 at June 30, 2001 and 2000, respectively | 33,055 | 34,336 |

| | | |
|---|---|---|
| Inventories | 176,036 | 159,006 |
| Prepaid expenses and other current assets | 18,085 | 17,670 |
| Deferred income taxes | 14,789 | 10,751 |
| Total current assets | 290,077 | 235,787 |
| Property, plant and equipment, net | 268,659 | 247,738 |
| Intangibles, net | 52,863 | 54,770 |
| Other assets | 7,519 | 5,276 |
| Total assets | $ 619,118 | $ 543,571 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt and capital lease obligations | $ 131 | $ 8,420 |
| Accounts payable | 63,788 | 65,879 |
| Accrued compensation and benefits | 27,766 | 22,966 |
| Accrued expenses | 16,169 | 11,003 |
| Total current liabilities | 107,854 | 108,268 |
| Long-term debt | 9,356 | 9,487 |
| Other long-term liabilities | 2,712 | 1,593 |
| Deferred income taxes | 34,413 | 33,714 |
| Total liabilities | 154,335 | 153,062 |
| Shareholders' equity: | | |
| Class A common stock, par value $.01, 150,000,000 shares authorized, 45,138,046 shares issued at June 30, 2001, 45,081,384 shares issued at June 30, 2000 | 451 | 451 |
| Preferred stock, par value $.01, 1,055,000 shares authorized, no shares issued and outstanding at June 30, 2001 and 2000 | -- | -- |
| Additional paid-in capital | 274,645 | 272,710 |
| | 275,096 | 273,161 |
| Less: | | |
| Treasury stock (at cost), 5,735,284 shares at June 30, 2001 and 5,674,278 shares at June 30, 2000 | (129,562) | (128,493) |
| Retained earnings | 319,249 | 245,841 |
| Total shareholders' equity | 464,783 | 390,509 |
| Total liabilities and shareholders' equity | $ 619,118 | $ 543,571 |

See accompanying notes to consolidated financial statements.



ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Consolidated Statements of Operations
For the years ended June 30, 2001, 2000 and 1999
(Dollars in thousands, except per share data)

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net sales | $904,133 | $856,171 | $762,233 |
| Cost of sales | 490,477 | 455,561 | 407,234 |
| Gross profit | 413,656 | 400,610 | 354,999 |
| Operating expenses: | | | |
| Selling | 161,808 | 145,684 | 127,269 |
| General and administrative | 118,895 | 107,345 | 93,968 |
| Restructuring and impairment charge | 6,906 | -- | -- |
| Total operating expenses | 287,609 | 253,029 | 221,237 |

| | | | |
|---|---|---|---|
| Operating income | 126,047 | 147,581 | 133,762 |
| Interest and other miscellaneous income, net | 2,814 | 443 | 837 |
| Interest and other related financing costs | 758 | 1,254 | 1,882 |
| Income before income taxes | 128,103 | 146,770 | 132,717 |
| Income tax expense | 48,423 | 56,200 | 51,429 |
| Net income | $ 79,680 | $ 90,570 | $ 81,288 |
| Per share data: | | | |
| Net income per basic share | $ 2.02 | $ 2.25 | $ 1.97 |
| Basic weighted average common shares | 39,390 | 40,301 | 41,278 |
| Net income per diluted share | $ 1.98 | $ 2.20 | $ 1.92 |
| Diluted weighted average common shares | 40,321 | 41,198 | 42,287 |
| Dividends declared per common share | $ 0.16 | $ 0.16 | $ 0.12 |

See accompanying notes to consolidated financial statements.



ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the years ended June 30, 2001, 2000 and 1999
(Dollars in thousands)

<TABLE>
<CAPTION>

| <S> | 2001 <C> | 2000 <C> | 1999 <C> |
|---|---|---|---|
| Operating activities: | | | |
| Net income | $ 79,680 | $ 90,570 | $ 81,288 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 20,220 | 16,975 | 16,344 |
| Restructuring and impairment charge | 6,356 | -- | -- |
| Compensation expense related to restricted stock award | 552 | 898 | 1,819 |
| Provision for deferred income taxes | (3,339) | (1,806) | (20) |
| Other non-cash (benefit) charge | (2,289) | (424) | 251 |
| Change in assets and liabilities, net of the effects from acquired and divested businesses: | | | |
| Accounts receivable | 1,334 | (783) | 1,222 |
| Inventories | (18,964) | (9,243) | (25,040) |
| Prepaid and other current assets | (1,665) | (3,181) | (3,353) |
| Other assets | (1,528) | (973) | (1,064) |
| Income taxes and accounts payable | (972) | 5,455 | 10,652 |
| Accrued expenses | 7,083 | 7,140 | 4,023 |
| Other liabilities | 1,119 | 223 | 558 |
| Net cash provided by operating activities | 87,587 | 104,851 | 86,680 |
| Investing activities: | | | |
| Proceeds from the disposal of property, plant, and equipment | 9,214 | 1,112 | 1,721 |

| | | | |
|---|---|---|---|
| Capital expenditures | (38,516) | (42,065) | (40,628) |
| Acquisitions | (9,722) | (12,631) | (7,164) |
| Other | 532 | 805 | 544 |
| Net cash used in investing activities | (38,492) | (52,779) | (45,527) |
| Financing activities: | | | |
| Borrowings on revolving credit facility | 1,500 | 78,000 | 81,500 |
| Payments on revolving credit facility | (9,500) | (70,000) | (81,500) |
| Other payments on long-term debt and capital leases | (420) | (768) | (2,717) |
| Other borrowings on long-term debt | -- | -- | 18 |
| Payments to acquire treasury stock | (1,069) | (49,606) | (45,137) |
| Net proceeds from issuance of common stock | 759 | 2,351 | 747 |
| Increase in deferred financing costs | -- | (524) | (55) |
| Dividends paid | (6,277) | (6,469) | (4,421) |
| Net cash used in financing activities | (15,007) | (47,016) | (51,565) |
| Net (decrease)/increase in cash and cash equivalents | 34,088 | 5,056 | (10,412) |
| Cash and cash equivalents at beginning of year | 14,024 | 8,968 | 19,380 |
| Cash and cash equivalents at end of year | $ 48,112 | $ 14,024 | $ 8,968 |
| Supplemental disclosure: | | | |
| Cash payments for: | | | |
| Income taxes | $ 50,365 | $ 61,319 | $ 50,331 |
| Interest | 618 | 980 | 1,637 |

</TABLE>

See accompanying notes to consolidated financial statements.



ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
Consolidated Statements of Shareholders' Equity
For the years ended June 30, 2001, 2000 and 1999
(Dollars in thousands, except share data)

<TABLE>
<CAPTION>

| <S> | Common Stock <C> | Additional Paid-in Capital <C> | Treasury Stock <C> | Retained Earnings <C> | Total <C> |
|---|---|---|---|---|---|
| Balance at June 30, 1998 | $ 445 | $ 262,313 | $ (33,750) | $ 85,312 | $ 314,320 |
| Issuance of 164,584 shares of common stock upon the exercise of stock options and restricted stock award compensation | 2 | 2,564 | -- | -- | 2,566 |
| Purchase of 1,921,784 shares of treasury stock | -- | -- | (45,137) | -- | (45,137) |
| Dividends declared on common stock | -- | -- | -- | (4,911) | (4,911) |
| Tax benefit associated with the exercise of employee stock options and warrants | -- | 2,409 | -- | -- | 2,409 |
| Net income | -- | -- | -- | 81,288 | 81,288 |
| Balance at June 30, 1999 | 447 | 267,286 | (78,887) | 161,689 | 350,535 |
| Issuance of 444,593 shares of common stock upon the exercise of stock options and restricted stock award compensation | 4 | 3,245 | -- | -- | 3,249 |

| | | | | | |
|---|---|---|---|---|---|
| Purchase of 1,928,350 shares of treasury stock | -- | -- | (49,606) | -- | (49,606) |
| Dividends declared on common stock | -- | -- | -- | (6,418) | (6,418) |
| Tax benefit associated with the exercise of employee stock options and warrants | -- | 2,179 | -- | -- | 2,179 |
| Net income | -- | -- | -- | 90,570 | 90,570 |
| Balance at June 30, 2000 | 451 | 272,710 | (128,493) | 245,841 | 390,509 |
| Issuance of 75,284 shares of common stock upon the exercise of stock options and restricted stock award compensation | -- | 1,311 | -- | -- | 1,311 |
| Purchase of 33,006 treasury shares relating to employee benefit and compensation plans | -- | -- | (1,069) | -- | (1,069) |
| Dividends declared on common stock | -- | -- | -- | (6,272) | (6,272) |
| Tax benefit associated with the exercise of employee stock options and warrants | -- | 624 | -- | -- | 624 |
| Net income | -- | -- | -- | 79,680 | 79,680 |
| Balance at June 30, 2001 | $ 451 | $ 274,645 | $(129,562) | $ 319,249 | $ 464,783 |

</TABLE>

See accompanying notes to consolidated financial statements.



ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Basis of Presentation

Ethan Allen Interiors Inc. (the "Company") is a Delaware corporation incorporated on May 25, 1989. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Ethan Allen Inc. ("Ethan Allen") and Ethan Allen's subsidiaries. All intercompany accounts and transactions have been eliminated in the consolidated financial statements. All of Ethan Allen's capital stock is owned by the Company. The Company has no other assets or operating results other than those associated with its investment in Ethan Allen.

Nature of Operations

The Company, through its wholly-owned subsidiary, is a leading manufacturer and retailer of quality home furnishings and sells a full range of furniture products and decorative accessories through an exclusive network of 312 retail stores, of which 84 are Ethan Allen-owned and 228 are independently owned. The Company's retail stores are primarily located in North America, with 28 located abroad. Ethan Allen has 18 manufacturing facilities and 3 sawmills throughout the United States.

Use of Estimates

The preparation of financial statements in conformity 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

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Certain reclassifications have been made to prior years' financial statements to conform with the current year's presentation. These changes did not have a material impact on previously reported results of operations or shareholders' equity.

Cash Equivalents
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The Company considers all highly liquid cash investments with original maturities of three months or less to be cash equivalents.

Inventories
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Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment
-----------------------------

Property, plant and equipment are stated at cost. Depreciation of plant and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Estimated useful lives of the respective assets generally range from twenty to forty years for buildings and improvements and from three to twenty years for machinery and equipment.





Intangible Assets
-----------------

Intangible assets primarily represent goodwill, trademarks and product technology and are amortized on a straight-line basis over forty years. Goodwill represents the excess cost of acquired businesses. The Company continuously assesses the recoverability of these intangible assets by evaluating whether the amortization of the intangible asset balances over the remaining lives can be recovered through expected future results. Expected future results are based on projected undiscounted operating results before the effects of intangible amortization. Product technology is measured based upon wholesale operating income, while goodwill and trademarks are assessed based upon total wholesale and retail operating income. The amount of impairment, if any, is measured based on the fair value or projected discounted future results.

Financial Instruments
---------------------

The carrying value of the Company's financial instruments approximates fair market value.

Income Taxes
------------

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Revenue Recognition
-------------------

Sales are recorded to dealers when goods are shipped, at which point title has passed. Sales made through Ethan Allen-owned stores are recognized when delivery is made to the customer.

Shipping and Handling Costs
---------------------------

Ethan Allen's policy is to sell its products at the same delivered cost to all retailers nationwide, regardless of their shipping point. Costs incurred to deliver finished goods to the consumer are expensed and recorded in selling, general and administrative expenses. Shipping and handling costs were $59.2 million, $53.9 million, and $45.9 million for fiscal year 2001, 2000, and 1999, respectively.

Advertising Costs

Advertising costs are expensed when first aired or distributed. Advertising costs for the fiscal years 2001, 2000 and 1999, were $45.9 million, $44.4 million, and $43.2 million, respectively. Prepaid advertising costs at June 30, 2001 and 2000 were $4.3 million and $2.3 million, respectively.



(1) Summary of Significant Accounting Policies (continued)

Closed Store Expenses

Future expenses, such as rent and real estate taxes, net of expected lease or sublease recovery, which will be incurred subsequent to vacating a closed Ethan Allen-owned store, are charged to operations upon a formal decision to close the store.

Earnings Per Share

The Company computes basic earnings per share by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if all potentially dilutive common shares were exercised.

Stock Compensation

As permitted by SFAS No. 123 "Accounting for Stock Based Compensation", the Company follows the provisions of APB No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for compensation expense related to the issuance of stock options.

Comprehensive Income

The Company does not have any components of comprehensive income as defined under SFAS No. 130, "Reporting Comprehensive Income".

Derivative Instruments

The Company adopted SFAS No. 133, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" and SFAS No. 138, which later amended this pronouncement, in fiscal year 2001. Upon review of the Company's current contracts, the Company has no derivative instruments as defined under these standards.

New Accounting Standards

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 addresses the accounting and reporting for business combinations and supercedes APB Opinion No. 16, "Business Combinations" and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." The new pronouncement requires that all business combinations be accounted for under the purchase method. The Company will adopt this standard for all business combinations initiated after June 30, 2001.

Also in June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". This pronouncement provides guidance on financial accounting and reporting for acquired goodwill and other intangible assets. This statement supercedes APB Opinion No. 17, "Intangible Assets". The provisions of this statement are required to be applied for fiscal years beginning after December 15, 2001. The Company plans to adopt this pronouncement for its first quarter ended September 30, 2001, which will positively impact annual pre-tax earnings by approximately $1.8 million.



(2) Restructuring and Impairment Charge

During fiscal year 2001, the Company developed a plan to consolidate its manufacturing operations as part of an overall strategy to maximize production efficiencies and maintain our competitive advantage. In the fourth quarter, the Company initiated its consolidation plan by announcing the closure of three of its manufacturing facilities and the elimination of approximately 350 employees effective August 6, 2001. A pre-tax restructuring and impairment charge of $6.9 million was recorded in the fourth quarter for costs associated with the plant closings, of which $3.3 million principally relates to employee severance and benefits costs and plant exit costs, and $3.6 million relates to a fixed asset impairment charge primarily for properties and machinery and equipment of the closed facilities.

As of June 30, 2001, the restructuring reserve of $2.8 million was included in the Consolidated Balance Sheets as an accrued expense in current liabilities and the impairment charge of $3.6 million was recorded to reduce certain property, plant and equipment to net realizable value.

Activity in the Company's restructuring reserve is summarized as follows (dollars in thousands):

| | Original Charges | Cash Payments | Non-cash Utilized | Total |
|---|---|---|---|---|
| Employee severance and other related payroll and benefit costs | $ 2,974 | $ (550) | $ -- | $ 2,424 |
| Plant exit costs and other | 332 | -- | -- | 332 |
| Write-down of long-term assets | 3,600 | -- | (3,600) | -- |
| Balance as of June 30, 2001 | $ 6,906 | $ (550) | $(3,600) | $ 2,756 |

(3) Inventories

Inventories at June 30 are summarized as follows (dollars in thousands):

| | 2001 | 2000 |
|---|---|---|
| Finished Goods | $115,661 | $103,787 |
| Work in process | 19,521 | 19,233 |
| Raw materials | 40,854 | 35,986 |
| | $176,036 | $159,006 |

(4) Property, Plant and Equipment

Property, plant and equipment at June 30 are summarized as follows (dollars in thousands):

| | 2001 | 2000 |
|---|---|---|
| Land and improvements | $ 41,382 | $ 40,839 |
| Buildings and improvements | 214,972 | 192,256 |
| Machinery and equipment | 146,193 | 138,458 |
| | 402,547 | 371,553 |
| Less: Accumulated depreciation | (133,888) | (123,815) |
| | $ 268,659 | $ 247,738 |



(5) Intangibles

Intangibles at June 30 are summarized as follows (dollars in thousands):

| | 2001 | 2000 |
|---|---|---|
| Product technology | $ 25,950 | $ 25,950 |
| Trademarks | 28,200 | 28,200 |
| Goodwill | 18,714 | 18,795 |
| Other | 350 | 350 |
| | 73,214 | 73,295 |

| | | |
|---|---|---|
| Less accumulated amortization | (20,351) | (18,525) |
| | $ 52,863 | $ 54,770 |

(6) Borrowings

Total debt obligations at June 30 consists of the following (dollars in thousands):

| | 2001 | 2000 |
|---|---|---|
| Revolving Credit Facility | $ -- | $ 8,000 |
| Industrial Revenue Bonds, 2.45% - 7.50%, maturing at various dates through 2011 | 8,455 | 8,455 |
| Other | 1,032 | 1,452 |
| Total debt | 9,487 | 17,907 |
| Less current maturities and short term capital lease obligations | 131 | 8,420 |
| Long-term debt | $ 9,356 | $ 9,487 |

The Company has a $125.0 million unsecured Revolving Credit Facility (the "Credit Agreement") with J. P. Morgan Chase & Co. as administrative agent and Fleet Bank, NA and Wachovia Bank, NA as co-documentation agents. The Credit Agreement includes sub-facilities for trade and standby letters of credit of $25.0 million and swingline loans of $3.0 million. Revolving loans under the Credit Agreement bear interest at J. P. Morgan Chase & Co.'s Alternative Base Rate ("ABR"), or adjusted LIBOR plus 0.625%, which is subject to adjustment arising from changes in the credit rating of Ethan Allen's senior unsecured debt. The Credit Agreement provides for the payment of a commitment fee equal to 0.15% per annum on the average daily unused amount of the revolving credit commitment. The Company is also required to pay a fee equal to 0.75% per annum on the average daily letters of credit outstanding. As of June 30, 2001, the Company had no revolving loans outstanding. Letters of credit outstanding totaled $16.7 million with an unused Revolver balance of $108.3 million. For fiscal years ended June 30, 2001, 2000 and 1999 the weighted-average interest rates were 5.55%, 6.22%, and 6.17%, respectively.

The Credit Agreement matures in August of 2004 and there are no minimum repayments required during the term of the facility. The revolving loans may be borrowed, repaid and reborrowed over the term of the facility until final maturity.

The Credit Agreement contains various covenants which limit the ability of the Company and its subsidiaries to incur debt, engage in mergers and consolidations, make restricted payments, make asset sales, make investments and issue stock. The Company is required to meet certain financial covenants including consolidated net worth, fixed charge coverage and leverage ratios.



(6) Borrowings (continued)

The Company has loan commitments in the aggregate amount of approximately $1.0 million related to the modernization of its Beecher Falls, Vermont manufacturing facility. Loans made pursuant to these commitments bear interest at rates ranging from 3.0% to 5.5% and have maturities of 10 to 30 years. The loans have a first and second lien in respect of equipment financed by such loans and a first and second mortgage interest in respect of the building, the construction of which was financed by such loans.

Aggregate scheduled maturities of long-term debt for each of the five fiscal years subsequent to June 30, 2001, and thereafter are as follows (dollars in thousands):

| | |
|---|---|
| 2002 | $ 131 |
| 2003 | 141 |
| 2004 | 61 |
| 2005 | 4,662 |
| 2006 | 64 |
| Subsequent to 2006 | 4,428 |

(7) Leases

Ethan Allen leases real property and equipment under various operating lease agreements expiring through the year 2028. Leases covering retail outlets and equipment generally require, in addition to stated minimums, contingent rentals based on retail sales and equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Future minimum payments by year and in the aggregate under non-cancelable operating leases consisted of the following at June 30, 2001 (dollars in thousands):

| Fiscal Year Ending June 30: | |
|---|---|
| 2002 | $ 17,993 |
| 2003 | 16,844 |
| 2004 | 15,502 |
| 2005 | 14,305 |
| 2006 | 12,069 |
| Subsequent to 2006 | 43,952 |
| Total minimum lease payments | $ 120,665 |

The above amounts will be offset in the aggregate by minimum future rentals from subleases of $18.2 million.

Total rent expense for the fiscal years ended June 30 was as follows (dollars in thousands):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Basic rentals under operating leases | $18,496 | $16,102 | $16,761 |
| Contingent rentals under operating leases | 895 | 1,972 | 1,509 |
| | 19,391 | 18,074 | 18,270 |
| Less: sublease rent | 3,084 | 3,314 | 2,812 |
| | $16,307 | $14,760 | $15,458 |



(8) Shareholders' Equity

The Company's authorized capital stock consists of (a) 150,000,000 shares of Common Stock, par value $.01 per share, (b) 600,000 shares of Class B Common Stock, par value $.01 per share, (c) 1,055,000 shares of Preferred Stock, par value $.01 per share of which (i) 30,000 shares have been designated Series A Redeemable Convertible Preferred Stock, (ii) 30,000 shares have been designated Series B Redeemable Convertible Preferred Stock, (iii) 155,010 shares have been designated as Series C Junior Participating Preferred Stock, and (iv) the remaining 839,990 shares may be designated by the Board of Directors with such rights and preferences as they determine (all such preferred stock, collectively, the "Preferred Stock"). As of June 30, 2001 and 2000, there were no shares of Preferred Stock or shares of Class B Common Stock issued or outstanding.

The Company has been authorized by its Board of Directors to repurchase its common stock from time to time, either directly or through agents, in the open market at prices and on terms satisfactory to the Company. The Company also repurchases shares of common stock from terminated or retiring employee's accounts in the Ethan Allen Retirement Saving Plan. The Company's common stock repurchases are recorded as treasury stock and result in a reduction of shareholders' equity. During fiscal years 2001, 2000 and 1999, the Company repurchased the following shares of its common stock:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Common shares repurchased | 33,006 | 1,928,350 | 1,921,784 |
| Cost to repurchase common shares | $ 1,069,307 | $49,605,555 | $45,137,746 |
| Average price per share | $ 32.40 | $ 25.72 | $ 23.49 |

The Company funded its purchases through cash from operations and through revolver loan borrowings under the Credit Agreement. As of June 30, 2001, the Company had a remaining Board authorization to purchase 1.4 million shares.

On May 20, 1996, the Board of Directors adopted a Stockholder Rights Plan and declared a dividend of one Right for each outstanding share of common stock as of July 10, 1996. Each Right entitles its holder, under certain circumstances, to purchase one one-hundredth of a share of the Company's Series C Junior Participating Preferred Stock at a price of $41.67 on a post split basis. The Rights may not be exercised until 10 days after a person or group acquires 15% or more of the Company's common stock, or 15 days after the commencement or the announcement of the intent to commence a tender offer which, if consummated, would result in a 15% or more ownership of the Company's common stock. Until then, separate Rights certificates will not be issued, nor will the Rights be traded separately from the stock. Should an acquirer become the beneficial owner of 15% of the Company's common stock, and under certain additional circumstances, the Company's stockholders (other than the acquirer) would have the right to receive in lieu of the Series C Junior Participating Preferred Stock, a number of shares of the Company's common stock, or in stock of the surviving enterprise if the Company is acquired, having a market value equal to two times the purchase price per share.

The Rights will expire on May 31, 2006, unless redeemed prior to that date. The redemption price is $0.01 per Right. The Board of Directors may redeem the Rights at its option any time prior to the announcement that a person or group has acquired 15% or more of the Company's common stock.



(9) Earnings per Share

The following table sets forth the calculation of weighted average shares for the fiscal years ended June 30 (shares in thousands):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Weighted average common shares outstanding for basic calculation | 39,390 | 40,301 | 41,278 |
| Add: Effect of stock options and warrants | 931 | 897 | 1,009 |
| Weighted average common shares outstanding, adjusted for diluted calculation | 40,321 | 41,198 | 42,287 |

Stock options to purchase 986,600 shares of common stock had an exercise price in excess of the average market price in fiscal year 2000. These options have been excluded from the diluted earnings per share calculation since their impact is anti-dilutive.

(10) Employee Stock Plans

The Company has reserved 7,419,699 shares of Common Stock for issuance pursuant to the Company's stock option and warrant plans as follows:

<u>1992 Stock Option Plan</u>

The 1992 stock Option Plan provides for the grant of options to employees and non-employee directors to purchase shares of Common Stock that are either qualified or non-qualified under Section 422 of the Internal Revenue Code, as well as stock appreciation rights on such options. The awarding of such options is determined by the Compensation Committee of the Board of Directors after consideration of recommendations proposed by the Chief Executive Officer. The options awarded to employees vest 25% per year over a four-year period and are exercisable at the market value of the Common Stock at the date of grant. The maximum number of shares of Common Stock reserved for issuance under the 1992 Stock Option Plan is 5,490,597 shares.

<u>Incentive Stock Option Plan</u>

In 1991, pursuant to the Incentive Stock Option Plan, the Company granted to members of management options to purchase 829,542 shares of Common Stock at an exercise price of $5.50 per share. Such options vest twenty percent per year over a five year period.

<u>Management Warrants</u>

Warrants to purchase 699,560 shares of Common Stock were granted to certain key members of management during fiscal years 1991 and 1992. The warrants have been fully earned and were exercisable at $1.23 per share.



(10) Employee Stock Plans (continued)

Restricted Stock Award

As of July 1, 1994 and for each successive year through July 1, 1998, an annual award of 30,000 shares of restricted stock was granted to Mr. Kathwari, the President and Chief Executive Officer, with the vesting based on performance of the Company's stock price during the three year period after grant as compared to the Standard and Poors 500 index. Under the discretion of the Compensation Commmittee, Mr. Kathwari has been deemed vested in 92,000 shares as of June 30, 2001.

Stock Unit Award

During fiscal year 1998, the Company established a book account for Mr. Kathwari, which will be credited with 21,000 Stock Units as of July 1 of each year, commencing July 1, 1997, for a total of up to 105,000 Stock Units, over the term of Mr. Kathwari's employment agreement, with an additional 21,000 Stock Units to be credited in connection with each of the two one-year extensions. Following the termination of Mr. Kathwari's employment, Mr. Kathwari will receive shares of Common Stock equal to the number of Stock Units credited to the account.

Stock option and warrant activity during fiscal years 2001, 2000 and 1999 was as follows:

| | Number of Shares | | |
|---|---|---|---|
| | 92 Stock Option Plan | Incentive Options | Management Warrants |
| Options Outstanding at June 30, 1998 | 3,102,570 | 328,106 | 84,545 |
| Granted in 1999 | 104,700 | -- | -- |
| Exercised in 1999 | (64,034) | (32,247) | (37,756) |
| Canceled in 1999 | (33,761) | (2) | (2,101) |
| Options Outstanding at June 30, 1999 | 3,109,475 | 295,857 | 44,688 |
| Granted in 2000 | 395,290 | -- | -- |
| Exercised in 2000 | (88,063) | (281,850) | (44,680) |
| Canceled in 2000 | (33,112) | (7) | (8) |
| Options Outstanding at June 30, 2000 | 3,383,590 | 14,000 | -- |
| Granted in 2001 | 35,225 | -- | -- |
| Exercised in 2001 | (67,882) | (6,000) | -- |
| Canceled in 2001 | (55,658) | -- | -- |
| Options Outstanding at June 30, 2001 | 3,295,275 | 8,000 | -- |

The following table summarizes the stock awards outstanding at June 30, 2001:

| | Range of Prices | Number Outstanding | Weighted Average Remaining Life | Weighted Average Exercise Price |
|---|---|---|---|---|
| 1992 Stock Option Plan | $ 6.00 to $ 6.50 | 1,123,600 | 3.7 yrs | $ 6.36 |
| | $14.50 to $18.21 | 130,425 | 5.7 yrs | $15.16 |
| | $21.17 to $25.00 | 1,032,825 | 6.9 yrs | $22.12 |
| | $26.25 to $28.31 | 871,150 | 6.5 yrs | $27.41 |
| | $30.75 to $33.78 | 137,275 | 8.1 yrs | $31.58 |
| | | 3,295,275 | | |
| Incentive Options | $ 5.50 | 8,000 | 0.5 yrs | $ 5.50 |

(10) Employee Stock Plans (continued)

The following table summarizes the number of shares exercisable at June 30, 2001:

| | Range of Prices | Number of Shares Exercisable | Weighted Average Exercise Price |
|---|---|---|---|
| 1992 Stock Option Plan | $ 6.00 to $ 6.50 | 892,170 | $ 6.37 |
| | $14.50 to $18.21 | 124,327 | $15.01 |
| | $21.17 to $25.00 | 836,790 | $21.45 |
| | $26.25 to $28.31 | 813,350 | $27.46 |
| | $30.75 to $33.78 | 46,470 | $31.80 |
| | | 2,713,107 | |
| Incentive Options | $ 5.50 | 8,000 | $ 5.50 |

Had compensation costs related to the issuance of stock options under the Company's 1992 Stock Option Plan been determined based on the estimated fair value at the grant dates for awards under SFAS No. 123, the Company's net income end earnings per share for the fiscal years ended June 30, 2001, 2000 and 1999 would have been reduced to the proforma amounts listed below, (dollars in thousands, except per share data):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net Income | | | |
| As reported | $79,680 | $90,570 | $81,288 |
| Proforma | 78,517 | 86,630 | 77,840 |
| Net Income per Basic Share | | | |
| As reported | $ 2.02 | $ 2.25 | $ 1.97 |
| Proforma | 1.99 | 2.15 | 1.89 |
| Net Income per Diluted Share | | | |
| As reported | $ 1.98 | $ 2.20 | $ 1.92 |
| Proforma | 1.95 | 2.10 | 1.84 |

The per share weighted average fair value of stock options granted during fiscal 2001, 2000 and 1999 was $13.60, $12.24, and $11.98, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: weighted average risk-free interest rates of 5.39%, 6.22%, and 5.15% for fiscal 2001, 2000 and 1999, respectively; dividend yield of 0.53%, 0.61%, and 0.60% for fiscal 2001, 2000 and 1999, respectively; expected volatility of 45.0%, 45.9%, and 46.8% in fiscal 2001, 2000 and 1999, respectively; and expected lives of five years for each.

(11) Income Taxes

Total income taxes were allocated as follows (dollars in thousands):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Income from operations | $ 48,423 | $ 56,200 | $ 51,429 |
| Stockholders' equity | (624) | (2,179) | (2,409) |
| | $ 47,799 | $ 54,021 | $ 49,020 |



(11) Income Taxes (continued)

The income taxes credited to stockholders' equity relate to the tax benefit arising from the exercise of employee stock options.

Income tax expense attributable to income from operations consists of the following for the fiscal years ended June 30 (dollars in thousands):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 46,513 | $ 49,934 | $ 44,478 |
| State | 5,249 | 8,072 | 6,971 |
| Total current | 51,762 | 58,006 | 51,449 |
| Deferred: | | | |
| Federal | (3,157) | (1,650) | (17) |
| State | (182) | (156) | (3) |
| Total deferred | (3,339) | (1,806) | (20) |
| Income tax expense on income | $ 48,423 | $ 56,200 | $ 51,429 |

The following is a reconciliation of expected income taxes (computed by applying the Federal statutory rate to income before taxes) to actual income tax expense (dollars in thousands):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Computed "expected" income tax expense | $ 44,836 | $ 51,370 | $ 46,451 |
| State income taxes, net of federal income tax benefit | 3,162 | 5,247 | 4,529 |
| Goodwill amortization | 265 | 143 | 117 |
| Other, net | 160 | (560) | 332 |
| Income tax expense on income | $ 48,423 | $ 56,200 | $ 51,429 |

The significant components of the deferred tax expense (benefit) are as follows (dollars in thousands):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Deferred tax (benefit) | $ (4,795) | $ (3,309) | $ (1,503) |
| Utilization of net operating loss carryforwards | 1,456 | 1,503 | 1,483 |
| | $ (3,339) | $ (1,806) | $ (20) |

The components of the net deferred tax liability as of June 30 are as follows (dollars in thousands):

| | 2001 | 2000 |
|---|---|---|
| Deferred tax assets: | | |
| Accounts receivable | $ 1,194 | $ 1,220 |
| Inventories | 3,154 | 3,478 |
| Other liabilities and reserves | 10,441 | 6,049 |
| Net operating loss carryforwards | 5,533 | 7,234 |
| Total deferred tax asset | 20,322 | 17,981 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | 24,202 | 24,380 |
| Intangible assets other than goodwill | 13,327 | 14,199 |
| Miscellaneous | 2,417 | 2,365 |
| Total deferred tax liability | 39,946 | 40,944 |
| Net deferred tax liability | $19,624 | $22,963 |





The Company has tax operating loss carryforwards of approximately $14.6 million at June 30, 2001, of which $4.0 million expires in 2007 and $10.6 million expires in 2008. Pursuant to Section 382 of the Internal Revenue Code, the Company's utilization of the net operating loss carryforwards are subject to an annual limitation of approximately $3.9 million.

Management believes that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

(12) Employee Retirement Programs

The Ethan Allen Retirement Savings Plan

The Ethan Allen Retirement Savings Plan (the "Plan") is a defined contribution plan which is offered to substantially all employees of the Company who have completed three consecutive months of service regardless of hours worked.

Ethan Allen may, at its discretion, make a matching contribution to the 401(k) portion of the Plan on behalf of each participant, provided the contribution does not exceed the lesser of 50% of the participant's contribution or $1,000 per participant per Plan year. Total profit sharing and 401(k) company match expense was $5.5 million in 2001, $3.2 million in 2000, and $2.6 million in 1999.

Other Retirement Plans and Benefits

Ethan Allen provides additional benefits to selected members of senior and middle management in the form of previously entered deferred compensation arrangements and a management incentive program. The total cost of these benefits was $5.0 million, $4.4 million, and $3.8 million in 2001, 2000 and 1999, respectively.

(13) Wholly-Owned Subsidiary

The Company owns all of the outstanding stock of Ethan Allen and has no material assets other than its ownership of Ethan Allen stock and conducts all significant operating transactions through Ethan Allen. The Company has guaranteed Ethan Allen's obligation under the Credit Agreement and has pledged all the outstanding capital stock of Ethan Allen to secure its guarantee.

The condensed balance sheets of Ethan Allen as of June 30 are as follows (dollars in thousands):

| | 2001 | 2000 |
|---|---|---|
| Assets | | |
| Current assets | $289,979 | $235,782 |
| Non-current assets | 476,154 | 448,059 |
| Total assets | $766,133 | $683,841 |
| Liabilities | | |
| Current liabilities | $106,194 | $106,595 |
| Non-current liabilities | 46,481 | 44,794 |
| Total liabilities | $152,675 | $151,389 |



(13) Wholly-Owned Subsidiary (continued)

A summary of Ethan Allen's operating activity for each of the years in the three-year period ended June 30, 2001, is as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net sales | $904,133 | $856,171 | $762,233 |
| Gross profit | 413,656 | 400,610 | 354,999 |
| Operating income | 126,197 | 147,722 | 133,930 |
| Interest expense | 758 | 990 | 1,639 |
| Income before income taxes and extraordinary charge | 128,253 | 146,911 | 132,885 |
| Net income | $ 79,830 | $ 90,711 | $ 81,456 |

(14) Litigation

The Company has been named as a potentially responsible party ("PRP") for the cleanup of three sites currently listed or proposed for inclusion on the National Priorities List ("NPL") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"). The Company has resolved its liability at one of the sites by completing remedial action activities. The Company has resolved its liability at another site through legal settlement and in regard to the third site the Company does not anticipate incurring significant cost. The Company believes that it is not a major contributor based on the very small volume of waste generated by the Company in relation to total volume at the site.

(15) Segment Information

The Company's reportable segments are strategic business areas that are managed separately and offer different products and services. The Company's operations are classified into two main segments: wholesale and retail home furnishings.

The wholesale home furnishings segment is principally involved in the manufacture, sale and distribution of home furnishing products to a network of independently-owned and Ethan Allen-owned stores. Wholesale profitability includes the wholesale gross margin, which is earned on wholesale sales to all retail stores, including Ethan Allen-owned stores.

The retail home furnishings segment sells home furnishing products through a network of Ethan Allen-owned stores. Retail profitability includes the retail gross margin, which is earned based on purchases from the wholesale segments.

The Company evaluates performance of the respective segments based upon revenues and operating income. Inter-segment eliminations primarily comprise the wholesale sales and profit on the transfer of inventory between segments. Inter-segment eliminations also include items not allocated to reportable segments.



(15) Segment Information (continued)

During the third quarter of 2001, the Company re-evaluated its operating segments and as a result changed its segment reporting format from five segments (case goods, upholstery, home accessories, retail, and other) to two segments (wholesale and retail). This change reflects how management currently manages its operations, resulting in part, from the growth in the Company's retail business. The following table presents segment information for the fiscal years ended June 30, 2001, 2000, and 1999 (dollars in thousands):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| **Net Sales:** | | | |
| Wholesale segment | $ 705,651 | $ 691,076 | $ 637,036 |
| Retail segment | 419,322 | 372,058 | 294,701 |
| Elimination of intercompany sales | (220,840) | (206,963) | (169,504) |
| Consolidated Total | $ 904,133 | $ 856,171 | $ 762,233 |
| **Operating Income:** | | | |
| Wholesale segment(1) | $ 99,122 | $ 131,753 | $ 122,968 |
| Retail segment | 24,523 | 21,257 | 15,146 |
| Elimination(2) | 2,402 | (5,429) | (4,352) |
| Consolidated Total | $ 126,047 | $ 147,581 | $ 133,762 |
| **Capital Expenditures:** | | | |
| Wholesale segment | $ 22,147 | $ 22,393 | $ 24,795 |
| Retail segment | 16,369 | 19,672 | 15,833 |
| Acquisitions(3) | 9,722 | 12,631 | 7,164 |
| Consolidated Total | $ 48,238 | $ 54,696 | $ 47,792 |
| **Total Assets:** | | | |
| Wholesale segment | $ 460,477 | $ 392,506 | $ 366,895 |
| Retail segment | 183,240 | 179,075 | 137,256 |
| Inventory profit elimination(4) | (24,599) | (28,010) | (23,529) |
| Consolidated Total | $ 619,118 | $ 543,571 | $ 480,622 |

(1) Operating income for the wholesale segment includes a pre-tax restructuring and impairment charge of $6.9 million recorded in the

fourth quarter of fiscal year 2001.

(2) The adjustment reflects the change in the elimination entry for profit in ending inventory.

(3) Acquisitions for the year ended June 30, 2001 include the purchase of a manufacturing facility in Dublin, Virginia in October of 2000.

(4) Inventory profit elimination reflects the embedded wholesale profit in the Company-owned store inventory that has not been realized. These profits will be recorded when shipped to the retail customer.

There are 28 independent retail stores located outside the United States. Approximately 2.4% of the Company's net sales are derived from sales to these retail stores.



(16) Selected Quarterly Financial Data (Unaudited)

Tabulated below are certain data for each quarter of the fiscal years ended June 30, 2001, 2000, and 1999 (dollar amounts in thousands, except per share data):

| | Quarter Ended | | | |
|---|---|---|---|---|
| | September 30 | December 31 | March 31 | June 30 |
| **2001 Quarters:** | | | | |
| Net sales | $211,231 | $232,667 | $233,791 | $226,444 |
| Gross profit | 99,709 | 107,737 | 103,511 | 102,699 |
| Net income | 20,700 | 23,107 | 20,030 | 15,843 |
| Net income per basic share | 0.53 | 0.59 | 0.51 | 0.40 |
| Net income per diluted share | 0.52 | 0.58 | 0.50 | 0.39 |
| Dividend declared per common share | 0.04 | 0.04 | 0.04 | 0.04 |
| **2000 Quarters:** | | | | |
| Net sales | $189,592 | $217,486 | $220,300 | $228,793 |
| Gross profit | 88,521 | 103,899 | 103,148 | 105,042 |
| Net income | 18,733 | 24,833 | 23,171 | 23,833 |
| Net income per basic share | 0.46 | 0.61 | 0.58 | 0.60 |
| Net income per diluted share | 0.45 | 0.59 | 0.57 | 0.59 |
| Dividend declared per common share | 0.04 | 0.04 | 0.04 | 0.04 |
| **1999 Quarters:** | | | | |
| Net sales | $166,226 | $193,674 | $194,571 | $207,762 |
| Gross profit | 77,004 | 89,756 | 91,064 | 97,175 |
| Net income | 16,209 | 21,186 | 21,174 | 22,719 |
| Net income per basic share | 0.39 | 0.51 | 0.52 | 0.56 |
| Net income per diluted share | 0.38 | 0.50 | 0.50 | 0.54 |
| Dividend declared per common share | 0.02 | 0.03 | 0.03 | 0.04 |



## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

No changes in or disagreements with accountants on accounting or financial disclosure occurred in fiscal years 2001, 2000 and 1999.



# PART III

Part III is omitted as the Company intends to file with the Commission within

120 days after the end of the Company's fiscal year a definitive proxy statement pursuant to Regulation 14A which will involve the election of directors.

ITEM 10. Directors and Executive Officers of the Registrant

See reference to definitive proxy statement under Part III.

ITEM 11. Executive Compensation

See reference to definitive proxy statement under Part III.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

See reference to definitive proxy statement under Part III.

ITEM 13. Certain Relationships and Related Transactions

See reference to definitive proxy statement under Part III.



PART IV

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K

I. Listing of Documents

(1) Financial Statements. The Company's Consolidated Financial Statements included in Item 8 hereof, as required at June 30, 2001 and 2000, and for the years ended June 30, 2001, 2000 and 1999, consist of the following:

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Cash Flows

Consolidated Statements of Shareholders' Equity

Notes to Consolidated Financial Statements

(2) Financial Statement Schedule. Financial Statement Schedule of the Company appended hereto, as required for the years ended June 30, 2001, 2000 and 1999, consist of the following:

Valuation and Qualifying Accounts

The schedules listed in Reg. 210.5-04, except those listed above, have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) The following Exhibits are filed as part of this report on Form 10-K:

| Exhibit Number | Exhibit |
|---|---|
| *2(a) | Agreement and Plan of Merger, dated May 20, 1989 among the Company, Green Mountain Acquisition Corporation ("Merger Sub"), INTERCO Incorporated, Interco Subsidiary, Inc. and Ethan Allen |
| *2(b) | Restructuring Agreement, dated as March 1, 1991, among Green Mountain Holding Corporation, Ethan Allen, Chemical Bank, General Electric Capital Corporation, Smith Barney Inc. and the stockholder's name on the signature page thereof |
| *2(c) | Purchase and Sale Agreement, dated March 28, 1997, between the Company and Carriage House Interiors of Colorado, Inc. |
| *3(a) | Restated Certificate of Incorporation for Green Mountain Holding Corporation |
| *3(b) | Restated and Amended By-Laws of Green Mountain Holding Corporation |
| *3(c) | Restated Certificate of Incorporation of the Company |
| *3(c)-1 | Certificate of Designation relating to the Series C Junior Participating Preferred Stock |
| *3(c)-2 | Certificate of Amendment to Restated Certificate of |

| | |
|---|---|
| | Incorporation as of August 5, 1997 |
| *3(c)-3 | Second Certificate of Amendment to Restated Certificate of Incorporation as of March 27, 1998 |
| *3(c)-4 | Third Certificate of Amendment to Restated Certificate of Incorporation as of April 28, 1999 |
| *3(d) | Amended and Restated By-laws of the Company |
| *3(e) | Certificate of Designation relating to the New Convertible Preferred Stock |
| *3(e)-1 | Certificate of Designation relating to the Series C Junior Participating Preferred Stock |
| *3(f) | Certificate of Incorporation of Ethan Allen Finance Corporation |
| *3(g) | By-Laws of Ethan Allen Finance Corporation |
| *3(h) | Certificate of Incorporation of Ethan Allen Manufacturing Corporation |
| *3(i) | By-Laws of Ethan Allen Manufacturing Corporation |



| Exhibit Number | Exhibit |
|---|---|
| *4(a) | First Amendment to Management Non-Qualified Stock Option Plan |
| *4(b) | Second Amendment to Management Non-Qualified Stock Option Plan |
| *4(c) | 1992 Stock Option Plan |
| *4(c)-1 | First Amendment to 1992 Stock Option Plan |
| *4(c)-2 | Amended and Restated 1992 Stock Option Plan |
| *4(c)-3 | First Amendment to Amended and Restated 1992 Stock Option Plan |
| *4(c)-4 | Second Amendment to Amended and Restated 1992 Stock Option Plan |
| *4(d) | Management Letter Agreement among the Management Investors and the Company |
| *4(e) | Management Warrant, issued by the Company to members of the Management of Ethan Allen |
| *4(f) | Form of Dealer Letter Agreement among Dealer Investors and the Company |
| *4(g) | Form of Kathwari Warrant, dated June 28, 1989 |
| *4(j) | Form of Indenture relating to the Senior Notes |
| *4(j)-1 | First Supplemental Indenture dated as of March 23, 1995 between Ethan Allen and the First National Bank of Boston for $75,000,000 8-3/4% Senior Notes due 2007 |
| *4(k) | Credit Agreement among the Company, Ethan Allen and Bankers Trust Company |
| *4(k)-1 | Amended Credit Agreement among the Company, Ethan Allen and Bankers Trust Company |
| *4(k)-2 | 110,000,000 Senior Secured Revolving Credit Facility dated March 10, 1995 between Ethan Allen and J. P. Morgan Chase & Co. |
| *4(k)-3 | Amended and Restated Credit Agreement as of December 4, 1996 between Ethan Allen Inc. and the J. P. Morgan Chase & Co. |
| *4(k)-4 | First Amendment to Amended and Restated Credit Agreement as of August 27, 1997 between Ethan Allen Inc. and the J. P. Morgan Chase & Co. |
| *4(k)-5 | Second Amendment to Amended and Restated Credit Agreement as of October 20, 1998 between Ethan Allen Inc. and the J. P. Morgan Chase & Co. |
| *4(l) | Catawba County Industrial Facilities Revenue Bond |
| *4(l)-1 | Trust Indenture dated as of October 1, 1994 securing $4,600,000 Industrial Development Revenue Refunding Bonds, Ethan Allen Inc. Series 1994 of the Catawba County Industrial Facilities and Pollution Control Financing Authority |
| *4(m) | Lease for 2700 Sepulveda Boulevard Torrance, California |
| *4(n) | Amended and Restated Warrant Agreement, dated March 1, 1991, among Green Mountain Holding Corporation and First Trust National Association |
| *4(o) | Exchange Notes Warrant Transfer Agreement |
| *4(p) | Warrant (Earned) to purchase shares of the Company's Common Stock dated March 24, 1993 |
| *4(q) | Warrant (Earned-In) to purchase shares of the Company's Common Stock, dated March 23, 1993 |
| *4(r) | Recapitalization Agreement among the Company, General Electric Capital Corporation, Smith Barney Inc., Chemical Fund Investments, Inc., Legend Capital Group, Inc., Legend Capital International Ltd., Castle Harlan, Inc., M. Farooq Kathwari, the Ethan Allen Retirement Program and other stockholders named on the signature pages thereto, dated as of March 24, 1993 |
| *4(s) | Preferred Stock and Common Stock Subscription Agreement, |

| | |
|---|---|
| | dated March 24, 1993, among the Company, General Electric Capital Corporation, and Smith Barney Inc. |
| *4(t) | Security Agreement, dated as of March 10, 1995, between Ethan Allen Inc. and J. P. Morgan Chase & Co. |
| *4(u) | Rights Agreement, dated as of July 26, 1996, between the Company and Harris Trust and Savings Bank |
| *4(v) | Registration Rights Agreement, dated March 28, 1997, between the Company and Carriage House Interiors of Colorado, Inc. |
| *4(w) | Credit Agreement as of August 24, 1999 by and among Ethan Allen Inc., Ethan Allen Interiors Inc., the J. P. Morgan Chase & Co., Fleet Bank, N.A. and Wachovia Bank, N.A. |



| Exhibit Number | Exhibit |
|---|---|
| *10(b) | Employment Agreement, dated June 29, 1989, among Mr. Kathwari, the Company and Ethan Allen |
| *10(c) | Employment Agreement dated July 27, 1994 among Mr. Kathwari, the Company and Ethan Allen |
| *10(d) | Restated Directors Indemnification Agreement dated March 1993, among the Company and Ethan Allen and their Directors |
| *10(e) | Registration Rights Agreement, dated March 1993, by and among Ethan Allen, General Electric Capital Corporation and Smith Barney Inc. |
| *10(f) | Form of Management Bonus Plan, dated October 30, 1991 |
| *10(g) | Ethan Allen Profit Sharing and 401(k) Retirement Plan |
| *10(h) | General Electric Capital Corporation Credit Card Program Agreement dated August 25, 1995 |
| *10(h)-1 | First Amendment to Credit Card Program Agreement dated February 22, 2000 |
| *10(i) | Employment Agreement dated October 28, 1997 between Mr. Kathwari and Ethan Allen Interiors, Inc. |
| *10(j) | Sales Finance Agreement dated June 25, 1999, between the Company and MBNA America Bank, N.A. |
| *10(k) | Amended and Restated Consumer Credit Card Program Agreement dated February 22, 2000, by and among the Company and Monogram Credit Card Bank of Georgia |
| *21 | List of wholly-owned subsidiaries of the Company |
| 23 | Consent of KPMG LLP |

* Incorporated by reference to the exhibits filed with the Registration Statement on Form S-1 of the Company and Ethan Allen Inc. filed with the Security Exchange Commission (the "SEC") on March 16, 1993 (Commission File No. 33-57216), the Registration Statement on Form S-3 of the Company filed with the SEC on May 21, 1997 (Commission File No. 333-37545), the Annual Report on Form 10-K of the Company and Ethan Allen Inc. filed with the SEC on September 24, 1993 (Commission File No. 1-11806), the Current Report on Form 8-K of the Company and Ethan Allen Inc. filed with the SEC on July 3, 1996 (Commission File No. 1-11806), the Quarterly Report on Form 10-Q of the Company and Ethan Allen Inc. filed with the SEC on February 13, 1997 (Commission File No. 1-11806), the Quarterly Report on Form 10-Q of the Company and Ethan Allen Inc. filed with the SEC on November 14, 1997 (Commission File No. 1-11806), the Quarterly Report on Form 10-Q of the Company and Ethan Allen Inc. filed with the SEC on February 12, 1999 (Commission File No. 1-11806), the Quarterly Report on Form 10-Q of the Company and Ethan Allen Inc. filed with the SEC on May 13, 1999 (Commission File No. 1-11806), the Quarterly Report on Form 10-Q of the Company and Ethan Allen Inc. filed with the SEC on February 14, 2000 (Commission File No. 1-11806), the Annual Report on Form 10-K of the Company and Ethan Allen Inc. filed with the SEC on September 13, 2000, and the Registration Statement on Form S-3 of the Company, Ethan Allen, Ethan Allen Manufacturing Corporation, Ethan Allen Finance Corporation and Andover Wood Products Inc. filed with the SEC on October 23, 1994 (Commission File No. 33-85578-01) and all supplements thereto.



ETHAN ALLEN INTERIORS INC. AND SUBSIDIARY
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
As of and for the Fiscal Years Ended June 30, 2001, 2000 and 1999
(Dollars in thousands)

| | Balance at Beginning of Period | Additions Charged to Income | Adjustments and/or Deductions | Balance at End of Adjustments |
|---|---|---|---|---|
| Accounts Receivable | | | | |
| Sales discounts, sales returns and allowance for doubtful accounts: | | | | |
| June 30, 2001 | $2,751 | $ (22) | $ (50) | $2,679 |
| June 30, 2000 | $2,460 | $ 439 | $ (148) | $2,751 |
| June 30, 1999 | $1,961 | $ 622 | $ (123) | $2,460 |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ETHAN ALLEN INTERIORS INC.
(Registrant)

By /s/ M. Farooq Kathwari
Chairman, Chief Executive Officer and Director

ETHAN ALLEN INC.
(Registrant)

By /s/ M. Farooq Kathwari
Chairman, Chief Executive Officer and Director

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

| | |
|---|---|
| /s/ M. Farooq Kathwari<br>(M. Farooq Kathwari) | Chairman, Chief Executive Officer and Director |
| /s/ Clinton A. Clark<br>(Clinton A. Clark) | Director |
| /s/ Kristin Gamble<br>(Kristin Gamble) | Director |
| /s/ Horace McDonell<br>(Horace McDonell) | Director |

| | |
|---|---|
| /s/ Edward H. Meyer<br>------------------------------------------<br>(Edward H. Meyer) | Director |
| /s/ William W. Sprague<br>------------------------------------------<br>(William W. Sprague) | Director |
| /s/ Frank G. Wisner<br>------------------------------------------<br>(Frank G. Wisner) | Director |
| /s/ Edward D. Teplitz<br>------------------------------------------<br>(Edward D. Teplitz) | Vice President, Finance |
| /s/ Michele Bateson<br>------------------------------------------<br>(Michele Bateson) | Corporate Controller, Principal Accounting Officer |

CONSENT OF INDEPENDENT AUDITORS

Exhibit 23

The Board of Directors
Ethan Allen Interiors Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-47935 and 333-26949) on Form S-8 of Ethan Allen Interiors Inc. of our report dated August 2, 2001, relating to the consolidated balance sheets of Ethan Allen Interiors Inc. and Subsidiary as of June 30, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2001, and related financial statement schedule, which report appears in the June 30, 2001 annual report on Form 10-K of Ethan Allen Interiors Inc.

/s/ KPMG LLP

Stamford, Connecticut
September 11, 2001